FOREIGN AFFAIRS

July 1977 *$3.00 a copy*

DEBT AND THE BANKS
David O. Beim—Harold van B. Cleveland
W. H. Bruce Brittain—Richard Portes

America and Southern Africa—*Julius K. Nyerere*
Jerusalem—*Teddy Kollek*
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EDITOR'S NOTE

A minor innovation in the Recent Books section of this issue deserves a word of explanation touching on some fundamental points.

This magazine has throughout its history been published by the Council on Foreign Relations. However, the control of the Editors has always been total and unquestioned. By the same token, *Foreign Affairs* is in no sense a "house organ" for the research and writing carried on under the Council's auspices; neither the Council staff nor any Council-backed writer enjoys any preference for inclusion in these pages. And the Council itself does not take any position on questions of foreign policy. Its publications are the work of individual authors. The Council's responsibility with respect to its publications is limited and, as stated in each of them, corresponds essentially to the credo of *Foreign Affairs*.

Nonetheless, Council publications do raise a question of avoiding even the appearance of conflict of interest in our Recent Books section. Normally, it is easy to find a regular reviewer not associated with a particular Council book. But the Council's 1980s Project, under way on a large-scale basis for the past three years, has involved so many of our reviewers who are also Council staff members (about half the reviewing group) that for 1980s publications we will generally go outside the group to obtain signed reviews by competent people having no connection with the Project. Three such books are covered in this issue; roughly 20 more are to come.

It is our effort to have a Recent Books section that is not only clearly detached but as complete and usefully critical as the format will permit. We welcome our readers' comments on these points.

Once again we note with regret the departure of one of our most valued staff members at *Foreign Affairs*. Evelyn Morel, Assistant to the Managing Editor, has guided him, and the rest of us, through all manner of challenges over the past seven years, with special grace and sensitivity. We shall miss her sorely on her retirement. Her place will be taken by Dorothy Rudo.

The articles in FOREIGN AFFAIRS *do not represent any consensus of beliefs. We do not expect that readers of the review will sympathize with all the sentiments they find there, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* FOREIGN AFFAIRS *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. It does not accept responsibility for the views expressed in any articles, signed or unsigned, which appear in its pages. What it does accept is the responsibility for giving them a chance to appear there.* The Editors.

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Julius K. Nyerere

AMERICA AND SOUTHERN AFRICA

The dominant element in American foreign policy since 1946 has been opposition to communism and to the communist powers. As far as Africa was concerned, responsibility for pursuing these objectives was delegated to America's trusted allies—Britain, France, Belgium, and even Portugal—whose policies in the area were therefore broadly supported despite minor disagreements which arose as American business became interested in Africa's potential. Inevitably this placed America in opposition to an Africa which was trying to win its independence from those same powers; but when political freedom could be achieved peacefully, America was able to appear to Africa like a bystander. It was therefore able to adjust its policies and accept the new status quo of African sovereign states without any difficulty. Notwithstanding these adjustments, however, America has continued to look at African affairs largely through anti-communist spectacles and to disregard Africa's different concerns and priorities.

And in southern Africa events did not force any readjustments of American policies during the 1960s; so none were made. Practical support for the status quo continued unabated until after the Portuguese Revolution in April 1974. Thus, despite America's verbal criticism of Portuguese colonialism, American arms and equipment were used by Portugal in its military operations in Angola, Guinea-Bissau and Mozambique. Despite the verbal opposition to apartheid, American trade and investment in South Africa were expanded, and America opposed any effective U.N. demonstration of hostility toward the apartheid state. The United States has also fought a hard, and largely successful, rearguard action against the demands for international intervention against South Africa's occupation of Namibia. And on Rhodesia, America has trailed behind British policies, emasculated the sanctions policies it had endorsed at the United Nations, and criticized Africa for the vehemence of its opposition to the minority Smith regime.

This general approach to African questions, and particularly to southern Africa, culminated in the American government's support for the FNLA/UNITA forces in the dispute between the Angolan nationalist movements.

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Throughout the anticolonial war in Angola, that is from 1960 to 1974, America had supported Portugal, not any of the nationalist forces. Supplies to the FNLA of money and military and other equipment while decolonization was taking place were thus a rather blatant attempt to place "friends" in political power in the new state. Not surprisingly, it was the least effective of the contending nationalist groups which was open to this kind of purchase; success therefore depended upon the quick collapse of the MPLA, under assault. But the MPLA did not collapse. Instead it asked for and received more arms from those who had been helping it for the ten years of its anticolonial war; to meet the simultaneous South African invasion of Angola, the MPLA also welcomed Cuban troops. And when the FNLA demanded more help than the American Administration alone could give it, the U.S. Congress – with the lessons of Vietnam still fresh in its mind – refused finance.

It is not cynicism which attributes the beginnings of the "Kissinger initiative" in April 1976 partly to this experience. Nations, like people, sometimes need to be shaken out of habitual modes of thought. Nor was the Angolan debacle the only factor leading toward a reassessment of traditional U.S. policies in southern Africa. Some Americans had for long been urging support for the anti-racialist and anticolonial struggle, and American blacks were beginning to take a greater interest in these matters. Further, trade with independent Africa has been growing, and now includes oil from Nigeria. The possibility that this trade might be jeopardized by pro-South African actions is no longer of merely academic interest to the United States. And the guerrilla war in Rhodesia has been intensified since mid-1975, arousing fears of a repetition of the Angolan experience.

Africa welcomed the Lusaka statement by Dr. Kissinger that majority rule must precede independence in Rhodesia, and that America would give no material or diplomatic support to the Smith regime in its conflict with the African states or the African liberation movements. With some hesitation, Africa also cooperated with the Kissinger "shuttle diplomacy" later in the year. For Africa hoped that, even at that late stage, the use of American power in support of majority rule could enable this to be attained in Rhodesia without further bloodshed.

The "Kissinger initiative" did force Ian Smith to shift his ground, but it did not succeed in its declared objective. Neither did it remove Africa's uncertainty about the depth and geographical limitations of America's new commitment to change in southern

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Africa. For decades of history cannot be wiped out by one speech and a few months of highly individualistic one-man diplomacy. They cannot even be eradicated by the clear sincerity of a new President's commitment to supporting human rights, and the sympathetic understanding shown by the Ambassador he has appointed to the United Nations.

II

The United States of America is the most powerful nation on earth. Africa is weak, economically and militarily; its unity in action is still fragile. Africa does therefore naturally desire the friendship and cooperation of the United States; it does need trade, and economic assistance.

But overwhelming everything else in Africa is the sense of nationalism, and the determination of all African peoples that the whole of this continent shall be free and relieved from the humiliation of organized white racialism. Within Rhodesia, Namibia, and South Africa, and within the nations immediately bordering them, the commitment to the struggle against minority or colonial rule overrides all other matters.

This basic fact is important to America, as it is to the rest of the world. For power is not all-powerful. Nationalism cannot be overcome by it. Nationalist wars have no end except victory, however long that takes to achieve, whatever the cost and the inevitable setbacks. All that can be affected by the actions of its opponents is the character of the nationalist state and society after victory. The harder and longer the struggle for freedom, the more austere and radicalized the new state is likely to be. It may also be more intolerant. For wars are liable to destroy everything except hatred and mutual suspicion—which they nurture.

The United States, like other nations of the world, has a legitimate interest in the future as well as the present societies of southern Africa. It must be concerned about America's continued ability to buy the goods it needs, and its ability to sell sufficient goods to pay for its imports. America must be interested in whether or not these states will determine their own foreign policies according to their own interests after winning their freedom, or whether they will be dominated in these matters by states hostile to the United States. And America, like the rest of the world, will continue to have a legitimate interest in the status of human rights in southern Africa as well as elsewhere. None of these things will it be able to control in a state which is really independent—that is the meaning of independence. But one would expect that current American policies toward the nationalist struggles in southern

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Africa would be determined with these long-term interests in mind. And it does not seem to Africa that these factors have determined American policies in the past. At least they have not done so on any intelligent assessment of the paramountcy of nationalism in shaping the future.

III

One thing is quite certain. The status of human rights could not be worse in the independent states of southern Africa than it is now. The very idea of there being "human rights" presupposes the basic acceptance of human equality. Yet colonialism is in principle a denial of equality. It means that the interests of the colonized are subordinate to the interests of the colonizers, or at the very least are interpreted and judged by the colonizers. Support for human rights therefore involves opposition to colonialism, regardless of how gentle, well-intentioned, or selfless the colonial government may be. Greater urgency in ending this status is imparted to the situation when, as in Namibia and Rhodesia, colonialism has none of these virtues. Two hundred years after Americans fought their own kith and kin to end colonialism it should not be necessary for Africa to try to convince America that Africans find colonialism intolerable.

Human rights are also inconsistent with the practice of racialism. They are denied by any law or practice which distinguishes the rights and duties of men and women according to their racial origin. And in South Africa there is hardly a law which does not make this distinction; the entire state machinery is directed at organizing and upholding the domination of one racial group over all others. This would be inconsistent with human rights if the majority racial group were using racial discrimination as a means of controlling a dissident minority. It is not made more consistent when 83 percent of the South African population is denied elementary political, economic, and social justice by legislation and economic power used by and in the interests of the whites.

Every aspect of the South African state organization is thus inconsistent with the American philosophy of human equality and freedom. But this is not simply an internal South African matter. Without the kind of practical support which the South African government and society have been receiving—and are still receiving—from their relations with America and its allies, the present apartheid structure could not be sustained for very long. And therefore minority rule in Rhodesia and Namibia could not continue.

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Thus, for example, South Africa has a continuing and large deficit in its foreign trade, which is financed by capital imports, both long and short term. American investment in South Africa has more than tripled since 1966 and now stands at more than $1,600 million. All these investors profit from apartheid and the discriminatory wage structure—and thus have an interest in sustaining it.

Further, until now America has continued to act in the United Nations and elsewhere as if South Africa were a bastion against Soviet infiltration into southern Africa, and against the spread of communism in Africa. This image is carefully fostered by the apartheid regime, which prides itself on its anti-communism, and had defined a communist as "anyone who supports any of the aims of communism"—including the declared aim of human equality!

Yet by identifying itself in practice with the apartheid regime and its satellites, America is liable to bring about the very things it most fears—the growth of communist influence, the radicalization of the opposition to apartheid and colonialism, and the damage to its own economic interests. For opposition to the regimes in southern Africa is inevitable. Men will not indefinitely accept humiliation, exploitation, and tyranny. Sooner or later, by one means or another, the dominant minority will lose its ability to control the country and run the economy in its own interests. It is natural that Africa should seek American help in ending its humiliation. Americans should not find it natural when their country aids the oppressor instead of the oppressed.

The organizational and material weakness of the nationalist forces in southern Africa which results from decades of ruthless oppression, does, however, have two consequences of international relevance. First, nationalists cannot be particular about the means through which they carry on the struggle; they have to take advantage of any opportunities which they can find. Secondly, they have to accept help from wherever they can get it. The stronger apartheid and minority rule become, and the more supporters those forces enlist, the greater becomes the nationalists' need for outside help.

IV

When seeking external support for their struggles, it is natural that African nationalists should look first to the African countries which have already secured their own freedom. And it is equally natural that free African states should give that support. No independent African state can rest secure while colonialism continues

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in Africa, for colonialism is a denial of its own right to exist. Further, the human dignity of all Africans is denied when Africans anywhere are humiliated because of their race. On the principle of giving assistance to the freedom movements in southern Africa, therefore, the whole of free Africa is united. But in comparison with South Africa, free Africa is weak. All African states are poor, some are almost overwhelmed by the task of trying to make independence economically meaningful and beneficial to their people. Further, no African state has an armaments industry of its own. The Nationalist movements of southern Africa therefore need more help than Africa alone can give them.

Outside Africa, however, experience has shown that communist countries are almost the only ones which are both able and willing to assist the Nationalist movements of southern Africa. The major countries of the Western bloc urge patience and nonviolence as if these had not been tried for the past 30 years; simultaneously they continue to bolster South Africa's economic and military strength by trade, investment, and political cooperation. Some of the Nordic countries give humanitarian assistance to the freedom fighters. Only the communist countries are willing to make arms and other military help available when an armed struggle becomes the only way forward.

Why the communist states are willing to assist the Freedom Movements is for them to say. Africa knows why it needs that assistance, and what it will be used for if it can be obtained. Anything else is, at this stage, irrelevant to us. If the West decides to give us similar aid, I for one would not question its motives. Africa is concerned with existing oppression, not with hypothetical dangers in the future. Any new threats to freedom will be dealt with after it has been won—not before! In the war against Nazism the United States and the Soviet Union were allies.

But the peoples of southern Africa are not asking others to fight their liberation battles for them. They know that a people can only free themselves; they cannot import freedom. The peoples of these countries are asking only for appropriate support for the freedom struggle they are themselves conducting. Whether that support needs to be political, economic, or military—or all three—depends upon the type of struggle which has to be waged before victory is achieved. It is in this respect that the differences in the political and economic situations of Rhodesia, Namibia, and South Africa become relevant to current policies for other nations of the world.

Yet although the three countries do present different problems, and opportunities, it is pointless to try to treat each one in isolation.

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The objective is freedom for the whole of southern Africa. This means independence on the basis of majority rule in Rhodesia; independence on the basis of majority rule for Namibia as a single political unit; and an end to apartheid and minority rule in South Africa itself. So it is one struggle, with three geographical areas.

Therefore, South Africa cannot be regarded as an ally in the fight for majority rule in Rhodesia, any more than Rhodesia could be expected to support the anticolonial movement in Namibia. Rhodesia and South Africa are natural allies to each other. The most which could be achieved is for South Africa to recognize the differences between its own position and that of the Smith regime, and therefore to buy time for itself by refraining from direct assistance to minority rule in the British colony.

V

In Rhodesia, or Zimbabwe—to use its African name—we now have to face the fact that this is 1977, not 1965. A liberation war has started. Government "reforms," or reductions in the intensity of racial discrimination, which would have given hope of change fifteen or even ten years ago and thus prevented war, are now irrelevant. Options which existed at the time of Rhodesia's unilateral declaration of independence (UDI) no longer exist.

This should not be strange to Americans who know their own history. Very few inhabitants of the American colonies were calling for independence when the dispute with the British government arose in the 1760s. According to John Adams, one-third of the colonists remained opposed to the rebellion even during the War of Independence. Yet concessions made by the British government in 1770 were already too late to avert conflict. And once the war had begun it could have only one end. So it is in Rhodesia now. Ian Smith's unilateral "package of reforms" announced in March of this year will now not even buy him time.

The only question which remains open is whether independence on the basis of majority rule will be achieved by a fight to the finish, or whether that same end can be achieved by a minimum of bloodshed leading to negotiations.

Therefore negotiation cannot now be about the principle of majority rule before independence. Nor can it be about the establishment of an "interim government" under white control. The nationalists are insisting that the 270,000 whites cannot be allowed to continue governing 5,800,000 Africans, whatever promises the former make about organizing an "orderly transfer of power," or

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anything else. For the argument now is about power, not about promises; the fighting which has started will not end until a transfer of power from the minority to the majority has actually taken place. A ceasefire without such a transfer of power was tried in December 1974; it led to a strengthening of the minority regime.

What was possible until the collapse of the Geneva Conference in December 1976 was a delay in independence. For in accordance with the British tradition of decolonization, the nationalists had separated independence from internal self-government under majority rule. The latter they were demanding immediately, with some minority representation in an interim nationalist government. But they had agreed on a delay of 12 months before independence, in the hope that effective British sovereignty during that period would allow members of the minority community either to adapt to majority rule, or to leave the country. For in this connection it is relevant to remember that more than one-third of the 270,000 whites at present in Rhodesia have immigrated during the past 11 years—they can hardly be regarded as committed to the country.

These demands were rejected by Smith, as were the British government proposals. The British government then abandoned the Conference, showing that despite their legal responsibility for decolonization in Rhodesia, they regarded themselves merely as umpires between Smith and the nationalists, not as participants in a struggle against the Smith regime.

That opportunity for a negotiated settlement has therefore been lost. The attempt of the new British Foreign Secretary to organize talks on another basis has thus to overcome still more suspicion. And even if agreement between the British and the Nationalists is reached at new talks, the removal of Smith, and the dismantling of his power structure, still have to be achieved before any political agreement can be converted into the reality of majority rule.

The world in general, and Africa in particular, does, however, still have an interest in bringing the Rhodesian war to a rapid end. Ian Smith and his supporters have no such interest. On the contrary, their objective is the continuation of the war until South Africa, and possibly even the United States, come to their support.

Ian Smith recognizes that, on a long-headed assessment of South Africa's own interest, Prime Minister Vorster does not want to get directly involved in the Rhodesian conflict. But in any guerrilla war, civilian casualties are likely to occur; they are already happening in Zimbabwe. If the dead women and children begin to include large numbers of whites, then Smith knows, because Vorster has

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admitted it, that the Pretoria government will be under pressure from its own electorate to increase South African material support for the Smith regime. And as the casualties begin to include South African citizens who live in or visit Rhodesia, Smith believes that his armed forces will be strengthened by direct South African military intervention.

Direct South African military involvement would make a great change in the balance of forces in Rhodesia. It would not defeat nationalism. But it would greatly increase the difficulties of the Freedom Fighters. The nationalists would therefore be forced to seek increased external help; and it is only communist states which are likely to give whatever assistance is required. Even if an intelligent American government is then able to withstand the consequent pressure to intervene "against communism" and to maintain its opposition to Smith, the conflict would have been internationalized. Smith desires this. Africa does not. Whether the internationalization of a limited war of independence is in America's interests is for America to judge.

But America is not a helpless bystander to events in Rhodesia. It is a powerful nation, and influences developments there. It can frustrate Smith's attempts to escalate the war, and can even help to get the war ended.

First, it has to make it quite clear that the United States will give no support of any kind to the minority regime of Rhodesia, at any time, and regardless of the progress or possible escalation of the war.

Second, as evidence of this determination, it has to follow up the rescission of the Byrd Amendment by active steps against all sanctions-breaking (whether by American firms or others), and by greater efforts to prevent the Rhodesian recruitment of American citizens into the regime's army.

And third, the United States has to put pressure on the South African government to desist from further help to the Smith regime. It is not realistic to expect Vorster to act against Rhodesian minority rule; but he can be prevented from propping it up—at least more than he is already doing. The United States has sufficient leverage to do this without treating South Africa as if it is an ally in the struggle for justice in southern Africa.

No one is suggesting that there are quick, or painless, solutions to the problems in Rhodesia. In the 11 years which have passed since UDI, many opportunities have been lost, and new forces have arisen which now have to be taken into account. Thus, it is true that the Zimbabwe nationalists do not control all the forces which will

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influence Rhodesian events in the near and far future. But no settlement of this problem can now be reached without their participation in drawing it up, and their active support in its implementation. In 1977 it is in that context, and only in that context, that America or Britain—or Tanzania—can work for an end to war in Rhodesia.

VI

Namibia is politically different from Rhodesia in two major respects. First, if Prime Minister Vorster really accepted the principle of majority rule outside South Africa, as he has sometimes claimed, it is within his power to introduce it in Namibia. And if he really wants Namibia "off his back," as he once asserted, he has the power to make the necessary arrangements. Namibia is not a "client state" like Rhodesia; it is completely under the de facto control of the South African government and armed forces.

Secondly, Namibia is de jure a Trusteeship Territory. The United Nations has, by General Assembly and Security Council decision, withdrawn the authority of South Africa over Namibia. It has established the U.N. Council for Namibia, and appointed a full-time Commissioner, whose task is to arrange for an orderly transition to Namibian independence on the basis of political unity and majority rule, and periodically to report progress to the United Nations. Also the General Assembly has recognized the South West African People's Organization (SWAPO) as the sole representative nationalist movement of Namibia.

Apart from these two respects, however, the situations in Rhodesia and Namibia are becoming increasingly similar. A united nationalist party now exists, and cannot be ignored. An armed struggle has started in Namibia, although it is not as yet very intense.

South Africa is still trying to evade the necessity of negotiating the form of Namibian independence with SWAPO under the auspices of the United Nations. In response to a threat of action by the United Nations if its resolutions were not observed, South Africa organized the "Turnhalle Constitutional Conference" in 1975. Representation was by "ethnic group" (*i.e.*, South African-designated racial and tribal groups), and political parties were barred. The outcome of "Turnhalle," not surprisingly, is a set of proposals which basically maintain the structure of "tribal homelands" and "White areas," and would leave intact the existing racialist domination by the 99,000 whites among the 850,000 population. The South African government is proposing to present the result to the United Nations as an act of "decolonization."

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Proposals such as these will not solve the problem in South West Africa. Nationalism in Namibia cannot be overcome by establishing another independent apartheid state. The choice for the world, and for South Africa, remains unaffected by such maneuvers. The choice is: either a transfer of de facto power by South Africa to the United Nations, which can then negotiate an independence constitution with SWAPO; or negotiations between South Africa and SWAPO under U.N. auspices; or an intensified war, with all the dangers to world peace which that will bring.

Once again, America cannot control these events. But it could use its considerable influence to avert the dangers of a serious war of liberation in Namibia. In order to do this, America would first have to accept that SWAPO is the only Namibian nationalist organization, and that no settlement is possible without its agreement. Then it would apply some pressure on South Africa to negotiate with SWAPO under U.N. auspices. Alternatively it would give active American support to the struggle at the United Nations for a South African withdrawal from Namibia, and the introduction of an effective transitional U.N. administration.

What America must not do, if it aims to prevent a major war in Namibia, is to give any encouragement to the "Turnhalle" Conference, its participants, or South Africa's espousal of its proposals. For time is running out. If the Namibian war has to be intensified—as it will be if there is no progress—the time available for an orderly transition from minority to majority rule will again be exhausted before the work has begun.

VII

South Africa is an independent state. It is not a colony of anyone, and within the boundaries of the Republic there are no colonies to be granted independence. But its organized denial of human rights to all but 17 percent of its people, on the grounds of their race, make South Africa's "internal affairs" a matter of world concern. For nations have learned, and mankind has learned, that the hope for world peace and justice precludes indifference in the face of organized racialism.

The official reply to all demands that the world should put South Africa into quarantine has been that apartheid is best countered by diplomatic and other contact with more open societies. Unfortunately, however, the South African whites are correct in saying that their society is unique. Nowhere else has the privileged life-style of the dominant minority ever rested so completely and exclusively on racial oppression. Other experiences of gradual desegregation, in

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the southern states of the United States or elsewhere, will therefore do no more to persuade the whites of South Africa to change their policies than has the polite criticism of Western statesmen since the last world war.

Policies are also based upon the argument that, provided foreign investors pay a living wage to their employees, they will be increasing the pressures against apartheid because economic growth shows up the inefficiency of things like racial job reservation and migrant skilled labor. Quite apart from the fact that these are only a small aspect of apartheid, the evidence of the past 30 years—and longer—should by now have dispelled that illusion also. South Africa has been getting economically stronger and more developed at a rapid rate. Racial oppression has been increasing even faster. For the stronger the economy, the more can be spent upon suppressing the majority without any economic sacrifice being demanded of those who benefit by white supremacy. A strong South African economy strengthens the government, not the victims of its oppression.

The South African economy needs to be weakened, not strengthened, if apartheid is to be overthrown. South Africa therefore needs to be isolated economically, politically, and socially, by the rest of the world until there has been a change in political direction. The sooner that change begins, the less violence and chaos there is likely to be.

No one can doubt the desire of the people of South Africa to end apartheid. Organized opposition by the non-whites has been smashed, but the Soweto and Cape Town "riots" are only the latest of a long series of spontaneous uprisings. And they will not be the last outburst of frustration. For despite everything which the South African state can and will do, instability is inherent in a situation where the majority of the people are excluded from the benefits of a society which depends upon their work. Change can be delayed by an intensification of oppression and human suffering. But apartheid is doomed. The only question is whether the society subsides into chaos, or whether there is an orderly but speedy movement toward justice.

At present there may still just be time for the Republic to avoid ultimate economic and social collapse if the whites can be woken up to their own danger. They would have to begin by setting free, and then entering into a dialogue with, the real leaders of the non-white peoples who are now being held in jails, detention centers, and Restriction—people like Nelson Mandela, Robert Sobukwe and their colleagues. For it is only such people who would have a

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chance of organizing and channeling the irresistible opposition of the black peoples to their present humiliation.

So far there has been no evidence that the South African white government intends to guide the country in this direction—on the contrary. The whites remain self-confident in their strength and their racial arrogance; and they do this partly because the world continues to talk with them and support them in action. They have not been shocked into a reassessment of their position. They have not yet realized their need to talk with non-white South Africans about their common future. Instead they are able to talk with the rest of the world, and solve their economic problems by new foreign investment, new trade, and new immigration.

VIII

Each nation has to decide for itself what will be in its own interests, and these will determine its policies. But no one is asking that America should fight for the freedom of southern Africa. Africa is simply asking that America should stop supporting racialism and unfreedom in that area.

For the penalty, as well as the opportunity, of America's great power relative to that of any other nation, is that every American action, or failure to act, has an effect upon the timing and the nature of developments outside its own borders. This is not to say that America can impose its will on an unwilling world; only that it cannot avoid involvement in events elsewhere. When Tanzania trades or fails to trade, or indicates support or opposition for another government, the world goes on unchanged and unruffled. When America does any of these things it is affecting what will happen elsewhere. One may like this or not; it remains a statement of fact.

Thus, America cannot prevent men from struggling against colonialism and racialism in southern Africa. But American actions will either ease the inevitable triumph of the freedom struggle, or strengthen the resistance to it and thus force the anticolonial and anti-racist movements into a hard, ruthless, and hostile mold. There is no way in which powerful America can avoid doing one or the other of these things, as long as it needs to have commercial and state relations with the rest of the world.

Africa is therefore asking that America should recognize the conflict in southern Africa as the nationalist struggle which it is, and that it should refuse to be taken in by the communist bogey paraded by the racialists. It is asking that America should refrain from profit-making out of apartheid. South Africa needs the

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United States; but the United States does not need South Africa. Africa is asking that America should carry its declared support for human equality and dignity into policies which will weaken the forces of racialism and colonialism in southern Africa, so that the peoples of those areas can triumph more quickly and with less bloodshed.

With or without American support during the struggle, freedom in southern Africa will not mean the birth of ideal democracies, where all citizens enjoy human rights, civil liberty, and a consumer society to boot. Popular governments in Rhodesia, Namibia, and later in South Africa, will face immense problems of poverty, disruption and unrealizable expectations. They will also inherit a legacy of mutual hostility and bitterness. The racial prejudice which has been inculcated by years of deliberate indoctrination, and by bitter experience, will not disappear when majority rule begins.

But it is only after freedom has been won in the states of southern Africa that the positive struggle to build human equality and dignity can begin there. We in Africa hope that the new Administration of the United States will fulfill its early promise, and help the peoples of southern Africa to get to the position where they can make a beginning. At the very least, we hope that America will not continue to use its power and prestige to hinder the movement for freedom and humanity in the south of this continent.

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Richard R. Fagen

THE REALITIES OF U.S.-MEXICAN RELATIONS

When Jimmy Carter toasted José López Portillo on the occasion of the Mexican President's mid-February visit to Washington, he drew a laugh from those assembled in the White House State Dining Room by saying, "The Mexican people know what Yankee imperialism means, and being from Georgia, I have also heard the same phrase used." He went on to add:

> There has been a saying of one of President López Portillo's predecessors, "*Pobre México. Tan lejos de Dios, tan cerca de los Estados Unidos*," which means in English, "Poor Mexico. So distant from God, so close to the United States." But I know that under President López Portillo's administration the distance from God has become much less and the proximity to the United States, I hope, will become a blessing and not a curse.

Earlier in the day, when greeting President Carter on the White House lawn, President López Portillo had remarked:

> To be neighbors means to share everything, the good things and the bad things, too. We are absolutely convinced that it would not be correct to enhance the bad things that life brings on its own. On the other hand, friendship makes it possible for us to make progress by deepening and enhancing all good things. Therefore, it is advisable for good neighbors to be good friends.

Remarks on official state occasions are notoriously thin threads on which to hang weighty analyses, but as symbols they are not without their usefulness. To have Yankee imperialism—hardly a joking matter to most Mexicans—even mentioned in the White House suggests a modicum of historical candor. And certainly, whatever the López Portillo administration's relationship with God may turn out to be in the long run, one can only hope along with both Presidents that there will be more blessing than curse in

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Mexico's necessarily close relationship with the United States. But what realities must this hope confront, and what aspects of the total situation can actually be improved upon?

II

When President Carter referred to Yankee imperialism he probably had in mind U.S. military actions, especially the Mexican War of the mid-nineteenth century during which General Winfield Scott occupied Mexico City. In the subsequent treaty, the young republic lost almost half her territory to the United States—invaluable lands comprising what are today the states of Texas, California, Nevada, Utah, and parts of Colorado, New Mexico, and Arizona. If official memory extends into the twentieth century, President Carter might also have been alluding to the U.S. Navy's occupation of the port of Veracruz in April of 1914, an action costing no less than 300 Mexican lives and adding little to Woodrow Wilson's reputation as a man of peace. What the President assuredly was *not* referring to was imperialism in the more modern sense of the extension of financial and corporate control across frontiers in ways that distort the development of the host country, denationalizing and stripping power from ostensibly sovereign elites and peoples. The President, in fact, touched sensitive ground with his toast, for if Yankee imperialism has any dominant meaning in Mexico today, it clearly refers to the U.S. economic presence, not the dusty troops and steaming gunboats of times past.

However evaluated, there is no question but that the U.S. presence in the Mexican economy is enormous. Almost 70 percent of all Mexican exports are directed toward the United States, and better than 60 percent of Mexican imports are of U.S. origin. The United States is the primary source of direct foreign investment (over three billion dollars at present—up from $1.2 billion at the start of the 1970s), not to mention the overwhelming U.S. influence on tastes, consumption patterns, and mass media content. By the end of 1976, U.S. private banks were carrying the impressive total of $11.5 billion in outstanding loans and credits to Mexico, an increase of $2.5 billion over the previous year's figure.[1] U.S. tourism and dollar remittances from the millions of Mexicans both legally and illegally in the United States are critical to Mexico's balance of payments; and, until the devaluations of last year, peso parity with the dollar was a keystone of national policy.

[1] By comparison, all other less-developed countries combined held only $36 billion of U.S. bank loans and credits at the end of 1976. Whether the Mexican share of this total constitutes "overexposure," however, depends not just on the aggregate amount but also on a host of other political and economic factors.

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The centrality of the United States to the Mexican economy necessarily implies a wide range of influences and pressures on both public and private decision-makers south of the border. Although nationalistic egos continue to be bruised by this reality, it is widely acknowledged in practice. Thus, when López Portillo came to the United States in February, his meetings with representatives of the U.S. banking community followed hard on the heels of his meetings with the President. Although it is difficult to imagine an analogous scenario if Jimmy Carter had gone to Mexico, in this case it was clearly the "logical" and even necessary thing for the Mexican President to do.

The extensive involvement of the United States in the Mexican economy also helps put into perspective the seemingly endless cascade of issues that agitates relations between the two countries. However much newsplay and policy attention they may get at times, issues like the treatment of U.S. prisoners in Mexican jails, the flow of heroin into the United States, Mexican support for the anti-Zionism resolution in the United Nations, Colorado River salinity, the theft of archeological treasures, and even ex-President Echeverría's sponsorship of the controversial Charter of Economic Rights and Duties of States are not the basic and enduring stuff of U.S.-Mexican relations. This is not to say that they are not important, especially to particular groups at particular times; but they do not go down to the bedrock, to the basic structure of interests which links the two economies—albeit at times antagonistically.

With good management, a modicum of good will, and some intelligence these kinds of issues are, in one fashion or another, resolvable.[2] Some, like salinity and prisoners, can actually be removed from the negotiating agenda through treaties, agreements, and cooperative action. Others, like the Zionism flap and Mexico's aggressive advocacy of Third World positions, yield to policy reversals and a bit of well-constructed silence. But when economic bedrock is touched, no such relatively easy resolutions are to be found.

A classic example is Mexico's oft-repeated requests that trade and tariff barriers be lowered to allow Mexico's exports easier access to U.S. markets. This, of course, is not an issue specific to

[2] In claiming that these issues are resolvable, I do not mean to imply that the *problems* from which they derive can be solved in all cases. The traffic in brown heroin from Mexico is a case in point. Despite close cooperation between the United States and Mexico, and the participation of U.S. specialists and equipment in the destruction of Mexican poppy fields, only a minor dent is being made in the quantity of heroin available in the United States. The very fact of Mexican willingness to cooperate with the United States, however, whatever the outcomes of the program itself, leads to a reduction of the salience of the issue of brown heroin in bilateral relations—and in that sense a resolution.

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U.S.-Mexican relations, but rather one that can be generally applied to almost all trade relations between the more- and less-developed worlds. As has typically happened in such cases, these requests run into broadly based protectionist counter-pressures from U.S. interests that stand to lose from liberalized trading policies. Thus, since the United States cannot easily respond to the requests, and since Mexico must in its own interest continue to press for freer access, the issue simply will not go away. In fact, the bilateral clash around liberalized trade may, over time, become even more acute as U.S. manufactured and other goods come under accelerated pressure from exporters in both the more- and less-developed countries, thus further narrowing the already restricted room for maneuver that now exists.

Perhaps the thorniest bedrock issue specific to U.S.-Mexican relations involves the millions of undocumented Mexican nationals living and working in the United States. No reliable approximations of the total number of "illegals" in the United States are available, but estimates range from a low of four million to a high of over ten million. Taking the midpoint of this range, and assuming that approximately 60 percent of the total are Mexican nationals, a reasonable guess is that at any given moment there are about four million undocumented Mexicans in the United States.

More exact figures are relatively unimportant, for it is clear that the numbers are very large and the controversies that surround their presence in the United States more than sufficient to fuel debate for years to come. As workers they are located in the lowest paid and least desirable jobs, supplying cheap labor (often at wages well below the established minimums) to industry, agriculture, and the service sector. Resented by organized labor for ostensibly "taking jobs away from American workers," criticized by righteous taxpayers and politicians for allegedly draining off a disproportionate share of welfare services, and often preyed upon by criminal elements before, during, and after their journey north, their lot is by no means a happy one. And yet they continue to come, by the tens of thousands every week.

Their reasons for leaving Mexico are not far to seek. Predominantly younger males from impoverished rural communities, they flee poverty and unemployment in Mexico, drawn by the promise and possibilities of economic opportunities in the north. However miserable these opportunities may seem to northern eyes, they look quite different when viewed from a small town in Sonora. So across the border they come, sometimes making it on their own, sometimes smuggled across by *coyotes* who charge high fees in

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advance to their human contraband and then often also collect substantial payments from the employers to whom they deliver the low-cost labor.

As living testimony to multiple developmental failures, the northward migration is a substantial embarrassment to the Mexican government. But on almost all other counts it is a very positive phenomenon when viewed from the perspective of Mexican elites. What is perhaps most important is that the migration annually drains off hundreds of thousands of persons who would otherwise swell the ranks of the unemployed. In so doing, it undoubtedly slows in some measure the already cancerous growth of major metropolitan areas by keeping families in the rural areas who might otherwise gravitate to the larger cities in search of work and other opportunities. Finally, annual remittances back to Mexico from workers employed in the United States may now total as much as three billion dollars, a sum exceeding Mexican income from all tourist-related activities, and thus a crucial if not always acknowledged component of Mexico's balance of payments.

In the light of these advantages to Mexico's ruling elite, and the clearly destabilizing consequences that any major campaign of deportations back to Mexico would have, it is little wonder that both U.S. and Mexican policymakers usually move cautiously when trying to deal with this issue. Yet be dealt with it must, at least in the United States, for multiple pressures exist to render the border less permeable. Various scenarios and programs have been proposed and are under discussion, ranging from stricter security measures, to various kinds of identity cards, to fines for employers who knowingly hire undocumented workers. But, at best, all such proposals treat symptoms or peripheral aspects of the real problem, and many carry with them serious potential for infringements of civil liberties.[3]

The more basic truth is that the locus of the main structural conditions leading to this immigration is in Mexico, not in the United States, and it is there that the major remedial actions must be taken. Very large scale and carefully designed programs of rural development and job creation are needed to make the north and central plateau of Mexico at least minimally attractive to the

[3] During the first half of the 1970s, the U.S. Immigration and Naturalization Service carried out periodic round-ups of undocumented Mexican nationals and sent them back across the border by plane, bus, truck, and even on foot. These operations reportedly caused near panic in the Echeverría administration where it was feared that they signaled the beginning of a policy of massive deportations. Perhaps the single most aggressive act that the Carter Administration could take toward Mexico would be to attempt to "solve" the alien worker problem in this fashion. All public statements and indications suggest, however, that no such deportation policy is currently contemplated.

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tens of thousands of new job seekers who come onto the labor market each year. If such programs are not forthcoming, all the electronic gadgetry, registration cards, fines to employers, and forced deportations that the United States can muster will not keep Mexicans at home.[4]

This does not imply that there is nothing for the United States to do. On the contrary, if Mexico were to undertake the kinds of programs needed to make a dent on poverty and unemployment, U.S. support in the form of capital, technology, and revised tariff schedules would be essential precisely because of the economic dependence previously mentioned. But to date there are few indications that the resources, organizational models, and political will needed to mount such programs will be forthcoming, and the logic of Mexican politics does not augur well for their appearance until such time as even larger cracks appear in the developmental facade.

The immigration issue thus suggests a basic truth about Mexico, in fact *the* basic truth conditioning U.S.-Mexican relations; despite the impressive growth of the Mexican economy (between six and seven percent during most of the postwar period), the primary benefits of that "miracle" have been distributed only to a minority of the population, although obviously the minority that counts in political and economic terms. As has frequently been pointed out, then, the twin continuing challenges for Mexican political elites are how to maintain rates of growth high enough to support and even extend the current system of rewards and socioeconomic payoffs, and how to ensure that those who do not benefit from the "miracle" do not become excessively troublesome.

III

There is an understandable tendency to divide recent Mexican history—at least since the most tumultuous years of the 1910s and 1920s—into six-year *sexenios* corresponding to presidential terms. But there is also a Mexican reality that cannot be compartmentalized so neatly, that does not correspond to the changing of the guard, that is at the same time both the source of presidential and elite power as well as the albatross hung timelessly around the necks of those who would rule. This is the Mexico of extremes, of boom, of misery, of violence, and of tragedy—the Mexico that sprang from the ashes of the Revolution.

[4] See the data and policy recommendations developed in Wayne A. Cornelius, *Illegal Mexican Migration to the United States: A Summary of Research Findings and Policy Implications*. Cambridge, Massachusetts, Center of International Studies, M.I.T., Monograph Series on Migration and Development, 1977.

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Well over a million persons lost their lives in the years of bloodshed and turmoil that began in 1910 with the revolt against the dictatorship of Porfirio Díaz. Swept away by gunpowder, dynamite and machete were the old Porfirian stability and institutions, and along with them the growth and relative prosperity of the late nineteenth and early twentieth centuries. Also gone—at least temporarily—were the conditions which had resulted in foreigners contributing almost two-thirds of all investment in Mexico during the first 10 years of the present century. Brought to life was a set of egalitarian and nationalistic ideas and aspirations, expressed in the Mexican Constitution and a host of other documents that still echo—if sometimes hollowly—in the discourse of top-dogs and underdogs in Mexico today. But also created was a complex and at times contradictory set of centralized political and economic institutions that has resulted in the highest sustained postwar rates of economic growth in Latin America coupled with the maintenance and even intensification of extremes of wealth and poverty—all in the context of a political system that coopts (and when that fails, represses) dissent in a fashion that leaves less successful politicians amazed and even envious.[5]

As multiple commentators have pointed out, this political-economic system, particularly in its post-World War II manifestation, depends heavily on rapid, capital-intensive industrialization, foreign inputs, fiscal stability, and the disproportionate distribution of rewards to foreign investors, certain sectors of local capital, and the expanding middle and professional sectors. Its major engine and goal is aggregate growth, and its major political requirements are working class and peasant quiescence coupled with the active cooperation of the more privileged sectors. "Confidence" in the system is critical: the confidence of foreign investors and creditors that growth and thus profitibility and creditworthiness will continue; the confidence of the domestic private sector that the advantageous conditions of the past will continue to prevail; the confidence of the ascendant middle and professional sectors that their children will live at least as well as they do in their recently acquired semi-splendor; and even the confidence of the underdogs that their misery and pain are being attended to, that they also are, in some sense, on the post-revolutionary agenda.

All this, and much more, represents the contradictory legacy of the Mexican Revolution and the ideologies and institutions that

[5] For a useful, critical analysis of the manner in which the promised revolution of social justice was subordinated to elite power and aggrandizement, see John Womack, Jr., "The Spoils of the Mexican Revolution," *Foreign Affairs*, July 1970, pp. 677–87.

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took root in its aftermath. No Mexican administration can long operate outside the boundaries set by this legacy, yet it is also by no means clear that the system which has served Mexican elites and their friends so well in the past is equal to the burdens that will be placed upon it in the coming decades. This is both the basic paradox of modern Mexico and the context in which the last several years of Mexican history must be understood.

IV

When Luis Echeverría took office at the end of 1970 as the hand-picked successor of the out-going conservative President Gustavo Díaz Ordaz, his administration inherited not only the full range of contradictions and problems inherent in the postwar Mexican development model but also some particularly pressing political problems as well. As the implementer if not the architect of the pre-Olympics repression of 1968, Echeverría took office with serious personal, political liabilities—at least in leftist and intellectual circles.[6] Furthermore, during Díaz Ordaz's closed and conservative administration, distributional policies had been even more regressive than usual, thus triggering new waves of rural unrest and working-class pressures for a larger share of the benefits of Mexico's impressive aggregate economic growth. Finally, long-standing governmental policies supportive of an "alliance for profits" between foreign and some domestic capitalists had alerted Mexicans in both the public and private sectors to the rate and degree to which the Mexican economy was becoming increasingly denationalized.

Once in office, Echeverría moved on a number of fronts to build political support and arrest the worsening distributive and denationalization tendencies in the Mexican economy. Announcing a policy of "shared development" instead of the "stabilizing development" favored by his predecessors, he established a special advisory committee to study and propose fiscal reforms. Although many of the proposed reforms never left the presidential office—and others proved almost impossible to implement—the specter of a Mexico organized in ways that were not quite so favorable to the owners and managers of capital was sufficient to trigger significant business opposition at home. Equally controversial proposals were promulgated to regulate foreign economic influence. Again, al-

[6] During the Díaz Ordaz government, Echeverría served as Minister of *Gobernación* (State Security). As such, he was directly involved in the pre-Olympic massacre at Tlatelolco during which as many as 300 persons were killed. This was only the most sweeping of many repressive actions carried out during the 1960s against workers, peasants, and students.

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though all three of the laws that were finally passed were much watered down versions of the initial proposals, none was very warmly received by the international business community. Additionally, the Echeverría administration tried to build popular support directly, through costly wage, price, housing, and rural investment programs. Among the most dramatic were the activities of CONASUPO, a decentralized state agency which buys basic foodstuffs at guaranteed prices and then distributes them at correspondingly low prices in poorer areas, thus forcing down retail prices and undercutting the high profits traditionally earned by middlemen. When Echeverría took office, for example, CONASUPO was operating about 1,200 retail outlets; by 1975 the network had expanded to include 6,000 stores. Needless to say, the private sector regarded this as unfair competition.

But even as the Echeverría administration struggled with these and other reform measures—making multiple enemies in the process—the basic dynamics of the Mexican political economy ground inexorably on toward crisis. The macro-statistics tell part of the tale.[7] In 1970, the consumer price index stood at less than eight percentage points over 1968 levels. By the end of 1975, it had risen more than 90 percent. During the same five years, federal expenditures grew from about 3.2 billion dollars to over 12 billion, opening the gap between government income and expenditure from about $500 million in 1970 to $3.3 billion by 1975. The trade, balance-of-payments, and indebtedness statistics were no more encouraging. Mexico's yearly balance-of-trade deficit grew from about one billion dollars in 1970 to over 3.5 billion by 1975. Reflecting this trend, the yearly balance-of-payments deficit rose rather steadily to approximately four billion dollars by 1975, while the accumulated public sector external debt had reached $14.5 billion by the end of the same year.

Other trends and statistics round out the tale. Agricultural production grew so slowly that *per capita* food production continued to drop—as it had since about 1960. With the most dynamic sectors of agriculture oriented toward export markets, massive imports of food were necessary for both nutritional and political reasons. The most optimistic employment statistics suggest that during the first five years of the Echeverría administration employment increased

[7] To the extent possible, official Mexican statistics have been used throughout, as compiled and presented by the World Bank, IMF, U.S. Treasury Department, and other recognized sources. For useful additional data and analysis see Clark W. Reynolds, "Why Mexico's 'Stabilizing Development' Was Actually Destabilizing," testimony presented to the Joint Economic Committee, Subcommittee on Inter-American Economic Relations, 95th Cong., 1st Sess., January 17, 1977, Washington: GPO, 1977; and *Latin American Economic Report,* Special Report on Mexico, London: March 1977.

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on the average less than three percent a year, while those seeking jobs increased much more rapidly. In round numbers this meant that at least 150,000 to 200,000 persons joined the already swollen ranks of the unemployed and the underemployed each year. In short, a "worst-case" scenario was in the making: reform rhetoric and activities sufficient to raise the expectations of the poorer classes while frightening and angering the private sector both at home and abroad; long-term worsening trends in employment, agriculture, trade, balance of payments, and indebtedness—all of which were exacerbated in the mid-1970s by worldwide recessionary and inflationary pressures.

If the full responsibility for this gathering storm—or even a major part of it—should not be attributed to the Echeverría administration, there is no question but that the President cast himself as the lightning rod for the tempest that followed, thus ensuring his place in history. On August 31, 1976, in a move that caught many by surprise though it had been talked about for many years, the peso was devalued for the first time in 22 years. With the peso floating "like a stone" (according to a phrase often and bitterly repeated in Mexico City and elsewhere), multiple reactions and even panic ensued. While Mexican and foreign dailies headlined "turmoil," "hysteria," and "crisis," as much as four billion dollars fled the country seeking safe harbor in Texas banks and elsewhere.[8] Investment slowed down, inflation accelerated, unemployment rose, and the whole complex set of mechanisms by which devaluation and resultant dislocations and hardships are passed disproportionately on to the poorer sectors of society came into play. Twelve days before leaving office, when Echeverría expropriated tens of thousands of acres of prime land in the northern state of Sonora and turned them over as small parcels to peasants, talk of a military coup was heard for the first time in recent memory.[9] Although there was never a consensus on who was supposed to "do" the coup to whom, the predominant version was that Echeverría would use the armed forces to maintain himself in office. It was the crowning touch to a period both absurd and tragic. And when the 1976 statistics were finally in, it appeared that the economy had grown only two percent during the year, that inflation stood at over 30 percent, and that the accumulated public sector debt was close to the $20-billion mark.

[8] There is no way to calculate the true figure. This estimate is from *Latin American Economic Report, (ibid.)*. Nor is it known how much returned.

[9] Much to the relief of landowners throughout Mexico, the courts subsequently ruled that the expropriations were improper. The struggle, both in the courts and in the fields, is, however, far from over.

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López Portillo's inaugural address poured oil on troubled waters, although the literal truth of the metaphor is just now becoming apparent. Proclaimed sober, conciliatory and pragmatic by businessmen, bankers, and most national and international spokesmen, it announced an "alliance for production" between the public and private sectors, a cutback in the growth of government spending, various incentives to stimulate investment, and the necessity of reaching "a well-balanced agreement on profits and salaries." The intended "balance" in this agreement was already apparent by early January when, with substantial support from labor leader Fidel Velázquez and the government-dominated Confederation of Mexican Workers, a ten-percent minimum wage increase guideline was pushed through for 1977—a figure far below expected increases in the cost of living.

Openly advertising his administration as undertaking the long, hard process of recovery from the difficulties of the previous *sexenio,* López Portillo vigorously courted allies at home and abroad. By the end of March, for example, the powerful Monterrey group of industrialists, the sworn enemies of Echeverría, had announced a six-year investment plan totaling 100 billion pesos (almost four billion dollars at current exchange rates). Other plans were under way to woo foreign investment, and conciliatory and cordial noises were heard on a set of bilateral issues between Mexico and the United States, ranging from tourism to prisoners. It was clear that as the first quarter of 1977 ended, the elusive "confidence" so necessary to the recovery of the Mexican economy was in relatively full bloom both north and south of the Rio Grande.

V

For both security and economic reasons, the stakes of the United States in the stability and continued growth of Mexico are immense. Thus, it was not surprising that the U.S. government moved swiftly though quietly in mid-1976 to support the peso when the devaluation and crisis-of-confidence storm was brewing. As early as April, Mexico received $360 million under its short-term lending (swap) agreement with the U.S. Federal Reserve. Other support from the Federal Reserve and the U.S. Treasury followed. These funds backstopped the announcement, on September 20, 1976, that Mexico had arranged a 1.2 billion dollar package of financial support with the International Monetary Fund (IMF)—a package strongly supported by the U.S. government and private interests.

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First negotiated under the Echeverría government, and then softened a bit and ratified by the López Portillo administration, the IMF agreement is a classic, fiscally conservative, balance-of-payments oriented document. Projected for a period of three years, it establishes a three billion dollar limit on the net increase of public sector external debt for 1977 and sharply declining ceilings for 1978 and 1979. Through its targets for balance-of-payments, public sector accounts, and savings and investment, it puts substantial pressure on the government to tighten credit, squeeze wages, lower public spending, hold down foreign borrowing, and thus control inflation. At its first unveiling, it was warmly greeted by bankers, industrialists, transnational corporations, and fiscal conservatives of many nationalities. Needless to say, it was less well received by many Mexican politicians and *técnicos,* as well as workers and peasants who, even if they do not read the fine print, are well aware of who finally gets hurt when such austerity programs are followed to their logical consequences.

But in Mexico the resolution—or at least the management—of the contradictions inherent in an IMF-type program is seldom an either/or affair. As López Portillo told all who would listen when he was in Washington, to pump Mexico full of the harshest kind of deflationary and balance-of-payments medicine is not only to risk the health of the patient, but also to run the almost certain risk of what he pointedly called the "South Americanization" of Mexican political life. Although the details of that ominous phrase were never fully elaborated, at a minimum the President meant that if there were not enough resources to provide continued benefits to the more privileged sectors, with at least some consideration given to the basic needs of the majority, massive doses of repression would be needed to hold Mexico together politically. In short, the President said yes to an attack on "inflationary" wage increases and waste in government, yes to cooperation with and incentives to private enterprise, yes to international financial responsibility, yes to a good-neighbor policy toward the United States, but no to those aspects and targets of an austerity program that would bring in their wake unmanageable political problems. He thus called, in his own words, for an increase in supply not a restriction of demand.

To play the delicate game defined by these yes' and no's, additional capital is needed. By definition this can, in the short run, only come from foreign sources. Yet the IMF approach to the restoration of Mexico's health sets sharp limits to the amount of additional indebtedness that can be incurred. Is there a way out? The obvious answer is oil.

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Mexico may be relatively far from God, but it is providentially close to large amounts of petroleum. No one seems to know with any certainty the quantities involved, but estimates now run from a low of 11 billion barrels to as many as 60 billion. If the 60-billion barrel figure is correct, it would place Mexico second only to Saudi Arabia in reserves. To date, only about ten percent of Mexico's potential oil-bearing territory has been explored, so the high end of the estimate may well hold. In any event, estimates of Mexican reserves have been changing rapidly, from 3.5 billion barrels at the end of 1974 to the present figures.[10]

Almost immediately after taking power, the López Portillo administration moved to assure interested parties that these reserves would not be as closely held as they had been in the past. It was thus announced that during the 1976–82 *sexenio,* exports of crude and refined products would increase from about 100,000 to 1.1 million barrels a day. Even if no substantial increase in the price of crude is registered during this period, the export earnings generated from such a program would top $22 billion, more than sufficient to turn Mexico's balance-of-payments problems around.

This kind of expansion in Mexican production requires vast sums of investment and operating capital. The budget for PEMEX, the national oil monopoly, is scheduled to increase three-fold under the current administration. From the point of view of Mexico's managers and their friends in the United States, this is obviously money well spent, and thus there is every indication that foreign banks will be more than willing to lend against the promise of oil once they have sufficient indications that the bonanza is as substantial as it appears to be and that Mexico intends to push exports.[11] Whatever tough-minded consensus once existed among the IMF, the U.S. government and the private banks about the debt limits and Mexico's creditworthiness is unlikely to survive this bonanza and its validation. In fact, there is evidence that it is already beginning to crumble. Increasingly dependent on Arab oil with all that that implies politically, alarmed by recent energy scenarios and proposals, the United States would no doubt rather buy petroleum and natural gas from Mexico than from almost any other supplier in the world. The banks will be willing and even eager to lend when Mexican oil is the collateral. And when the moment arrives, the austerity-minded bureaucrats at the IMF will

[10] See the *Journal of Commerce,* February 9, 1977, pp. 1–2.

[11] In February, the Mexican Petroleum Institute announced that a U.S. company "which enjoys prestige among the most important banks in the world" has been called upon to help verify Mexico's reserves.

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either see the wisdom in a softening of debt limits or will find that an end run has been made around their "sound and sensible" package for levering the Mexican economy back to health.

As providential as this scenario looks, it touches only some of Mexico's problems. Oil may allow Mexico to slip away from the IMF but not from history. Oil exports, the related relaxation of debt limits, and the easing of some aspects of the austerity program give breathing space, another chance for hard-pressed Mexican politicians. But oil by itself cannot respond to peasants' demands for land; nor can it create hundreds of thousands of new jobs each year; nor can it keep millions of Mexicans from crossing the border; nor make rapid inroads on redressing a distribution of income that is one of the most unequal in the world; nor reduce public and private corruption; nor deal with the human and social problems generated by a population that doubles in size every 20 years. All that oil can do—and this is not to be scoffed at—is soften and perhaps postpone for some years the sharpening of the contradictions that are inherent in the Mexican development model. It cannot solve them.

VI

What are the policy implications of all this for the United States? What does it mean to be a "good neighbor" to a Mexico laboring under these pressures and with these problems? A first and rather obvious answer is that one should avoid being a truly bad neighbor. This means at a minimum that there must be no massive deportation of undocumented aliens, no yielding to protectionist tendencies of the sort that would further restrict Mexico's access to U.S. markets, no insisting on the full implementation of IMF austerity programs, and no punitive measures against Mexico if it should sometimes take positions in international forums that displease one or another group or interest in the United States.

But the avoidance of bad behavior is only a beginning, and one which prudential statesmen are likely to see as in their immediate self-interest, given the potential importance of Mexican oil. In fact, the latter situation clearly creates multiple pressures for special U.S. concessions toward Mexico in respect to trade, finance, and the transfer of technology. Less obvious policy concerns derive from a more detailed understanding of the awesome nature of the developmental dilemmas faced by Mexico and the dangers that flow from their mismanagement or the difficulty, if not impossibility, of resolving them within the existing political framework. What is at issue is nothing less than the implications of the "South

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Americanization" process so ominously suggested by President López Portillo on his visit to Washington.

Given some familiarity with Mexico's history and developmental contradictions, one does not have to be overly imaginative to sketch South Americanization scenarios. Whether the precipitating event is a clash over wages, prices, employment, land, food, or services, all scenarios would have in common the rupturing of the Mexican political consensus, the widespread use of force to suppress dissident groups, and a much larger presence of the military in public life. Viewed from the United States, such scenarios would have very serious ramifications. Border problems would escalate as political migration and pressures were added to the already substantial economic pressures. If the Mexican armed forces and police were turned against their own citizenry at anything like the level of repression existing in Chile and elsewhere, at some point U.S. territory would surely be used as a base for exile attacks back across the border. Private investment and bank lending would suffer and the much vaunted climate of confidence would necessarily crumble. Sooner or later, U.S. citizens would almost certainly be killed if violence were at all widespread or long lasting. The political dynamics unleashed in the United States as families, interests, and established relationships were broken would be unpredictable but surely grave. Additionally, the blow to democratic forces and futures in Latin America would be immense, for the Mexican experience, with all of its shortcomings, still suggests that there are alternatives to brutal dictatorships and massive military intervention in politics.

To sketch such scenarios is not to predict their inevitability. But they are by no means fanciful, and a forward-looking and creative U.S. policy toward Mexico should explore ways in which their probability can be lowered. At one level this means a frank recognition of the "specialness" of the U.S. relationship with Mexico by virtue of the 2,000-mile frontier, the weight of the U.S. presence in the Mexican economy, and the scale and importance of Mexico to the United States. Although the "special relationship" idea is currently out of favor in this age of globalism, there is no other country of the world with which the United States shares so many human beings, so much common geography, and so much history. In the coming years the United States will surely find itself repeatedly discussing a wide range of issues with Mexico in a bilateral context—issues like energy, trade, immigration, capital flows and others that have clear multilateral implications. The challenge will be to respond to Mexico's needs while also maintaining some

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degree of evenhandedness elsewhere in the hemisphere and the Third and Fourth Worlds.

But an even greater challenge in the long run will be to find ways of supporting those aspects of Mexican development and political practice that promise to increase social justice. The challenge is immense. Not only is there an inherent danger in meddling with domestic issues in another country, but such a policy in respect to Mexico is especially delicate since historically the United States has contributed to tilting Mexican development away from egalitarian goals. Whatever other virtues their friends may attribute to the U.S. banks, corporations and functionaries located in Mexico City, a profound concern with the consequences of their activities for income distribution, employment, peasant agriculture, and deteriorating conditions of life is not among them. What has traditionally been good for the United States in Mexico has not necessarily been good for tens of millions of the latter's citizens.

There may indeed be no way to link U.S. government and U.S. business to the aspirations of the Mexicans who are the cannon fodder rather than the beneficiaries of Mexican development. But to fail to understand that a Mexico in which the fruits of development are not more equitably shared is also a Mexico which cannot indefinitely continue to be a "good neighbor" is to misread history and to ignore geography. The basic test of U.S. policy will thus not be the sophistication with which the oil bonanza is handled. Self-interest may counsel wisdom in this case. Nor will it be the extent to which bad-neighborly actions are avoided. Again, self-interest and diplomatic discipline are likely to curb the worst excesses. Rather, the real test, in Mexico as elsewhere, will be found in the extent to which the United States discovers ways to support those forces pressing for social justice. Such actions will not be in the interest of those who profit, literally and figuratively, from current arrangements. But in the long run, allying with those who still wish to make real the bread and freedom promised to all Mexicans 60 years ago will surely prove to be in the interest of the majority of citizens, both north and south of the Rio Grande.

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Teddy Kollek

JERUSALEM

The place of Jerusalem in the process of seeking peace in the Middle East is unique. Its historical, emotional and international complexities set it apart from other issues which may be solved on the basis of mutually agreed boundaries. The questions that the Arabs raise about Jerusalem cannot be decided by drawing a line. The future of Jerusalem cannot be resolved by division.

This does not mean that Jerusalem is "an insoluble problem." It means that Jerusalem's people of differing faiths, cultures and aspirations must find peaceful ways to live together other than by drawing a line in the sand with a stick. It is no solution to build again concrete walls and barbed wire through the middle of the city.

The problem of Jerusalem is difficult because age-old and deeply felt emotions are encrusted over the rationality necessary to find solutions. But I am convinced that these solutions can be found by men of good will.

Let me be perfectly candid. The thing I dread most is that this city, so beautiful, so meaningful, so holy to millions of people, should ever be divided again; that barbed wire fences, mine fields and concrete barriers should again sever its streets; that armed men again patrol a frontier through its heart. I fear the re-division of Jerusalem not only as the mayor of the city, as a Jew and as an Israeli, but as a human being who is deeply sensitive to its history and who cares profoundly about the well-being of its inhabitants.

Jersusalem is, of course, one of the oldest cities. Signs of human habitation have been found dating back at least 4,000 years. In the course of these millennia it has been coveted and conquered by a host of peoples: Canaanites, Jebusites, Jews, Babylonians, Assyrians, Persians, Romans, Byzantines, Arabs, Crusaders, Mamelukes, Ottomans, British, Jews. But throughout those thousands of years, Jerusalem has been divided for less than two decades—from 1948 to 1967. It must never again be divided. Once more to cut this living city in two would be as cruel as it is irrational.

Why have all these successive peoples sought this city? It has no

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natural resources; it has no port; it has no material wealth. It has been coveted primarily for spiritual reasons; it was the site of the Temple of the Jews, the site of the Crucifixion of Jesus and the place from which Mohammed rose to Heaven.

The fact that all three great monotheistic religions find meaning in Jerusalem cannot be a random accident. I think the reason is clear. First of all, Jerusalem is a beautiful place set in the mystical Judaean Hills, conducive to meditation and thought and wonder at the meaning of life. And secondly, for all their tensions and exclusiveness, the three great religions are historically deeply interrelated. Jesus came to Jerusalem because he was a Jew who made the pilgrimage to the City of David and the Temple. Mohammed, whose roots were in Mecca and Medina, is said to have visited Jerusalem during his night ride because his ideas and his vision were interrelated with Judaism and Christianity. We must live with the reality of these connections. For centuries men have fought and died because of them. But I am not alone in feeling intensely that men can also live in brotherhood because of them.

These very connections make any division of Jerusalem a senseless exercise. The remaining Western Wall of the Temple enclosure, the Church of the Holy Sepulchre and the Dome of the Rock are all in the Old City within yards of each other. The Dome of the Rock is actually on top of the Temple Mount, the very site of the Temple of the Jews.

In 1947, as the British were about to relinquish their Mandate over Palestine, the United Nations, in addition to its partition recommendations, proposed to make Jerusalem an internationalized city. This solution proved unacceptable to both Muslims and Jews. Immediately following the passage of the United Nations resolution the Arabs initiated violent attacks on the Jews of Jerusalem. At the end of the generalized and prolonged fighting which followed, the Arabs held East Jerusalem and the Old City, and the Jews, West Jerusalem.

The Vatican supported internationalization at that time. But the Roman Catholic Church, although of great influence in the world, is only one element among the more than 30 Christian denominations in Jerusalem. The Catholics, for example, own about 17 percent of the Christian Holy Places. Apart from this, however, for various reasons the emphasis of the Vatican seems over the years to have been greatly modified. Nor is internationalization supported by other leading Christian communities in Jerusalem.

The religious tenets of the Muslims exclude internationalization because they reject the idea that the Temple Mount—the Haram—

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should be ruled by infidels. From that point of view Dr. Waldheim is as much an infidel as I am. Moreover, it does not accord with their political aspirations. As to the Jews the centrality of Jerusalem in Jewish faith and tradition and the intensity of Jewish feeling about Jerusalem are reflected in the 2,000-year-old prayer repeated throughout the centuries, "Next year in Jerusalem." This symbolizes not only a religious hope but memories of ancient glories under Jewish rule and an unyielding struggle for their revival. All this is expressed for Jews in the word "Jerusalem." The Jewish people cannot give up Jerusalem, nor can or will they ever again remove their capital from Jerusalem.

But independent of these intense feelings, internationalization will not work for pragmatic reasons. Past experience, whether in Trieste or in Danzig, has shown its unworkability. In the case of Danzig indeed it contributed to bringing on a world war.

A city cannot be run by a committee, particularly a city of such complexities and diversities as Jerusalem. Before building a road or a sewage system, the committee members would have to refer back to their foreign offices or to a United Nations bureaucracy. And who would pay the bills? Jerusalem is not an industrial city; its economy is based on government and education and tourism, and it does not have the taxing power to pay for itself. Today it is supported by the state of Israel. To this should be added that Israel's experience in the United Nations of recent years has been traumatic and there is little or no confidence that an international body, which presumably would operate under the authority of and reflect various power elements in the United Nations, would be either impartial or effective.

The mayor of Jerusalem does not make foreign policy; that is the function of Israel's national government. But when I look at the future of Jerusalem, there are two premises with which virtually everyone in Israel agrees. Those are the premises I have already suggested: that Jerusalem shall remain undivided and that it shall remain the capital of Israel. All Jerusalemites of every persuasion demand that, under whatever political solution, the city will remain accessible to all and the rights of every religion to its holy places will be preserved.

These two conditions have now existed for ten years—since the city was so unexpectedly unified when the Jordanians attacked Israel in the June 1967 War. And I think that the history of relations in Jerusalem between Jews, Arabs and Christians during this decade points to the kind of solution we should eventually evolve for Jerusalem.

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II

Tensions do exist today in the city and nobody can deny them. But it was a much less happy city when walls and barbed wire divided it; and it was certainly a more violent city than it is today. We have made progress towards a city of tolerant coexistence in which common interests are emerging, and we have established crucial principles that make continuing progress possible. Four of these principles are:

1. There shall be free access to all the Holy Places and they shall be administered by their adherents.

2. Everything possible shall be done to ensure unhindered development of the Arab way of life in the Arab sections of the city and to ensure the Arabs a practical religious, cultural, and commercial governance over their own daily lives. The same holds true, of course, for the various Christian communities.

3. Everything possible should be done to ensure equal governmental, municipal and social services in all parts of the city.

4. Continuing efforts should be made to increase cultural, social and economic contacts among the various elements of Jerusalem's population.

And, in fact, civic affairs, law enforcement, infrastructure services, urban planning, marketing and supply, and to a great extent specialized medical services are centrally provided to all Jerusalemites.

Let me briefly discuss these four principles.

First, the Holy Places. Throughout their occupation of East Jerusalem from 1948 to 1967, the Jordanians reneged on their commitments under the Armistice Agreement to permit Jews to have access to and to pray at the Western Wall. Instead, there was a mass destruction of Jewish synagogues, and other religious shrines were desecrated. There was a ban on the acquisition of land by Christian churches in any part of East Jerusalem. We have no reason to think the Arabs would act differently in the future. They have not in the meantime become more tolerant.

Ever since the reunification of the city by Israel, access has been opened to all Holy Places for all religions and sects. Today Christians administer Christian Holy Places and Muslims administer Muslim Holy Places. Israel is a tolerant enclave in an intolerant part of the world.

In practice satisfactory working arrangements have evolved for the Holy Places. The Arabs have independent administration without interference, and we maintain sovereignty. International law-

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yers would no doubt find it a problem to formulate these arrangements in a way satisfactory to both sides. But in practice it exists and works well.

The Temple Mount—a small area of 40 or 50 acres—is the most delicate problem. It is under Arab administration and Israeli sovereignty. After the fire set by a demented Australian fundamentalist Christian to the Al Aksa Mosque on the Temple Mount in 1969, the Arabs asked us to help guard this "Holy Enclosure." For the previous years, we had had no actual signs of our sovereignty on the Temple Mount. But then, at the Muslims' request, we appointed policemen to protect the Muslim Holy Places. No details were discussed, but the police unit guarding the Temple Mount is commanded by a Muslim officer and manned by a mixture of Muslim, Jewish and Christian policemen. This arrangement is based on a tacit de facto understanding emerging from the necessities of a complicated situation.

More recently, tension was caused when a group of young Jews attempted to pray on the Temple Mount in violation of present regulations and despite the fact that the Chief Rabbinate of Israel has prohibited religious Jews from even visiting the Temple Mount, because they may inadvertently step on the place where only the High Priest was allowed in ancient days.

Arab members of the Israeli police force stationed on the Temple Mount arrested the young men and brought them to trial. The magistrate found in favor of the Jewish boys and ruled that there is an inherent Jewish right to pray on the Temple Mount. Sensing a storm, I pressed the government for an immediate policy statement. In response, the Minister of Police issued a statement forbidding prayers on the Temple Mount. But the crisis was more serious than the government anticipated. Arabs, drawing on their concept of their own governments and courts, could not believe that a magistrate would make such a decision without prior authorization from a political authority. They suspected a salami tactic to take the Temple Mount from them slice by slice.

A reassuring statement from either the Prime Minister or the Minister of Justice might perhaps have been helpful. But the facts that the affair was still in judicial hands and that there is in Israel a clear distinction between judicial and administrative functions were no doubt inhibiting factors. Meanwhile, against the background of the fighting in the Lebanon and unrelated tensions in the West Bank, the fat was in the fire. There followed a series of serious demonstrations in the city.

Fortunately, however, the vast majority of Muslims in Jerusalem

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did not participate in the disturbances. Subsequently the Israel High Court overruled the decision of the magistrate. To me the whole incident was proof that there is a possibility of living together.

III

Second, unhindered development of the Arab way of life in the Arab sections of the city and Arab autonomy over their own daily lives:

We are, in American terms, a moderate-sized city—in all 370,000 of whom about 260,000 are Jews, about 90,000 Muslim Arabs and 15,000 Christians. Of the Christians, the majority are Armenians, Greeks, Ethiopians and members of various other venerable denominations. Roughly the same proportion between Jews and non-Jews has continued since the first unofficial census was taken in 1840 when the Jews were first recorded a majority in the city.

We are not trying to create a monolithic melting pot in Jerusalem. What we are trying to do is preserve, in this multi-cultural mosaic of a pluralistic society, the traditions that have existed in the city for centuries.

If you had walked into the city a hundred years ago, you would have found the same patterns. It comprised then only the small area enclosed by the City walls, just about one square kilometer. Entering through the Jaffa Gate, you would have found an Armenian Quarter, a Greek Quarter, a Latin Quarter, several little enclaves of Copts, Abyssinians and other Christian groups, a very large Muslim Quarter and an even larger Jewish Quarter. There was no intermarriage and not much social contact but relations were on the whole reasonable and bearable. The basic idea was that each person felt himself superior to everyone else.

These separate entities still exist today and we have built on them and on that tradition. Jerusalem's Jews consist of oldtimers and natives of the city and recent immigrants, coming from over a hundred different cultural backgrounds. This great Jewish variety has its own loyalties and aspirations. Among the Christian groups are Arabs—mainly Protestants and some Uniates—who have Arab national loyalties. Sometimes these feelings are very strong because minorities tend to try to give proof of stronger loyalties than secure majorities.

The majority of Christians in Jerusalem have only one desire, namely to continue their own way of life as they have done for a very long time. The Greek Patriarchs go back to the first century; the Armenians have been here since the fifth century. The Chris-

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tians in the city measure every government by the freedom given them to run their affairs undisturbed. That is their loyalty.

We don't interfere with them, their Holy Places, their pilgrimages or their schools. We help wherever and whenever we are asked to do so. The Jordanians had imposed two restrictive laws. One forced the Christian schools to give equal time to the Bible and the Koran; the other restricted Christian orders or foreigners from buying land or building churches. We have abolished both laws, and in fact four new major churches have since been built or are under construction. Like the Muslims, the Christians have authority over their own institutions and Holy Places. We do everything possible to help them maintain them.

The Arabs are in a difficult position: some, perhaps many, must have been proud when Arafat appeared before the United Nations. And yet I believe that most of them do not really expect or wish the Palestine Liberation Organization to solve their intricate problems nor regard the PLO ideology as desirable, let alone tenable. This is not because they are pro-Israel or pro-Zionist. Their fundamental goal is to remain in Jerusalem and to preserve the Arab character of their part of the city. That is their loyalty. The PLO threatens to put all this in jeopardy.

During the 19 years of Jordanian rule, Jerusalem experienced an emigration of Arabs. It was a dead-end city and all the opportunities were in Amman or in the oil countries. Christians tended to emigrate to North and South America. In order for the Arabs to remain here, they need a flourishing economic life. Today, they have economic prosperity and employment. And since their economy is to a great extent based on cooperation with the Jewish economy, terrorism and the PLO are not in the interests of local Arab nationalism and the continuation of the Arab presence in Jerusalem.

They face another danger. When the Mufti of Jerusalem fought the British and the Jews in the Palestine of the British Mandate in the 1930s, more Arabs who opposed him were killed by him and his henchmen than were British and Jews put together. About 500 Jews and 150 British lost their lives, while about 1,200 Arab civilians and 2,000 gang members were killed by their own brother Arabs. The Mufti was the father of the present-day PLO ideology of a monolithic and militant Arab Palestine nationalism. Jerusalem's Arabs fear a repetition of such internal terrorism if the PLO were to take over, particularly in the light of what has happened in Algeria and Lebanon.

There is, unfortunately, little tolerance today in Islam. To those

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who follow it closely, Islam seems on the march again, riding on the power and riches of oil which are expected to revive ancient glories and make amends for Tours and Vienna.

Many have already suffered at the hands of this revived intolerance: the Christian Maronites of Lebanon, the black Christians and pagans in the Sudan, the Jews in Syria, the Copts of Egypt and the Kurds of Iraq (for not being ethnically Arab). All have experienced varying degrees of persecution or outright genocide.

But to return to Jerusalem, our efforts to help the Arabs preserve their way of life in the city during the past decade have taken many forms:

The only place in the Arab world where there is a free press—free not only to criticize the Israeli government in the most violent terms, but also to criticize Arab leadership—is in Jerusalem, where three Arab dailies are published. This contrasts with the fact that several months before the Six Day War the Jordanian government decided to suppress the semi-independent newspapers of Jerusalem and replace them by a single government-controlled daily.

There is freedom to travel. A Jerusalem Arab is free to decide any morning to cross the bridge into Jordan and to go from there to any country. He can go whenever he likes and come back whenever he likes. 150,000 Arabs come to Jerusalem every year from Jordan, Egypt, Kuwait and Libya and everywhere else in the Arab world. They carry passports of countries that are at war with us. And they are welcome, because we have undertaken to make the Holy Shrines accessible to everyone.

There is an Arab curriculum in the schools for Arab children, and these schools are entirely maintained by the city. During their three final school years, Arab children have the choice of a course of study designed to qualify them for acceptance by an Arab university in the neighboring Arab countries. This course is acceptable even to the Arab League, and inspectors recognized by the Jordanian Ministry of Education come to Jerusalem to supervise the university entrance examinations. If they so prefer, Arab students can take a different course of study during those last three years at school and go to an Israeli university.

The beginnings of post-secondary education started by a Catholic college in Bethlehem and continuation classes in the Anglican school are also contributing to the raising of Arab educational achievement.

The only change introduced into the former Jordanian curriculum—besides eliminating hate propaganda—provides for Arab children to learn Hebrew. At the same time Israel is making special

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efforts to encourage the study of Arabic.

We have encouraged the growth of economic opportunities. We have built Arab vocational training schools and hope to build more, offering sophisticated subjects, such as electronics, computer technology, and others that will give Arab youth a chance to improve their standard of living and their self-respect. We are doing what we can to encourage Arab self-confidence and at the same time strengthen the Arab economy in Jerusalem.

And, finally, with few exceptions, the Arabs of Jerusalem are not only citizens of the city but remain citizens of Jordan at the same time. Few have in fact applied for Israeli citizenship and no pressure has been exerted on them to do so. We do not seek nor do we have any interest to break their ties to their families, their heritage and their culture. On the contrary, we encourage such links.

The Arab community of Jerusalem continues its public activities in various fields. Jerusalem houses the Association of Arab Free Professions of the West Bank, it has several Arab clubs, charitable societies, private schools and orphanages, etc.

All the measures we have taken thus far have been unilateral decisions of the Israeli government and the municipal administration. I have constantly advocated and called on the Arab citizens of the city to share actively in the decision-making process but so far with little success. Our efforts have been handicapped by the refusal of the Arab leadership to hold political office or openly to participate in the city's elected government. At the same time, many Arabs hold high appointed municipal office and well over 20 percent of the city's employees are Arabs, while almost all the former Arab municipal employees have continued in their jobs. Thousands of Arabs vote in our municipal elections (without accepting the principle of Israeli sovereignty); but fears lest running for municipal office be interpreted as accepting Israeli governance have prevented local leaders from standing for election in the municipal administration.

In practice we have overcome this problem in several ways. There is a Supreme Muslim Council which serves as the authority for Muslim affairs under non-Muslim rule. The Council was originally created by the British in 1921, later suspended by the Jordanian government and transferred to Amman, and reestablished in Jerusalem after the Six Day War. Though it is a self-appointed body not officially recognized by Israeli authorities, we deal with its leaders on day-to-day matters on a de facto basis.

We on our part have appointed an adviser on East Jerusalem affairs. He is a Jew and two of his three assistants are East Jerusa-

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lem Arabs. They keep in touch with the Arab community in many informal ways, learning its needs and helping to solve its problems.

Communication is also maintained through the ancient system of Mukhtars, or district leaders, each of whom is responsible for such matters as registering births, deaths, and land ownerships and notarizing documents in his locale. The 60 Mukhtars are not democratically elected by their constituents, but they act in the local tradition and perform useful functions.

The Chamber of Commerce of East Jerusalem performs numerous tasks which make possible the free flow of people and goods across the open bridges on the Jordan River. These include providing powers of attorney, authenticating high school diplomas for those wishing to study in Arab universities and so on. It also serves as a channel through which substantial amounts of Jordanian money are brought in to pay salaries to lawyers, teachers and others who in 1967 decided not to resume their work under the Israeli authorities.

In this manner and spirit we do our utmost both to retain flexibility and to reinforce contacts of all kinds with the Arab community of the city.

For some time now, I have envisioned a future structure in Jerusalem under which the city would be governed through a network of boroughs. Each borough would have a great deal of autonomy over its own municipal services and its life style. It would decide its own needs and priorities. It would be modeled not on the boroughs of New York but on those of London, which have their own budgets and a great deal of independence.

Of course, the borough idea is not a panacea. The Arabs will want the Temple Mount to be in their borough, and no Jew would agree to that. But the proposal does suggest an approach under which many of the aspects of everyday life can be delegated to local authorities, and the people of the various neighborhoods can feel some increasing control over their own lives and decisions.

By making our efforts permanent, by assuring their administration of the Temple Mount and by increasing their local autonomy, we hope to diminish any feeling among Jerusalem's Arabs that their way of life is threatened by Israeli sovereignty. We want to create a secure future for Arabs within the capital of Israel.

IV

The third principle we follow is that everything possible should be done to provide equal municipal and social services in all parts of the city.

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We are doing this despite the fact that Jerusalem is a poor city. It has no great industrial base. Although presently there is full employment, the people have not been able to accumulate capital. The population of this city of immigrants, both Jews and non-Jews, has grown by 350 percent in 25 years—a record increase! Most of the city's Jews—60 percent—are refugees from Arab countries who arrived without means and without useful skills. We also have a great number of elderly people, including aged Jewish immigrants who have prayed all their lives to come to Jerusalem. And we have a disproportionate share of young people in schools—90,000 from nursery schools to the Hebrew University. Our actual labor force is smaller than in other places.

In spite of these difficulties, we have done a great deal to improve local services and to equalize opportunities. We have created jobs. We have made it possible for Arab lawyers and judges, doctors, dentists and pharmacists to practice their professions without passing Israeli qualification exams. We have permitted corporations and other businesses to operate without the licenses and registrations required by Israeli law. We have extended our social welfare program to East Jerusalem where none existed before. We have opened community health centers in Arab neighborhoods. We have improved schools and built new ones. We have brought roads and electricity to outlying districts for the first time. The East Jerusalem sewage system, which existed only within the city walls, is at least 300 years old and some of it goes back to Roman times. It could not absorb the great new quantities of water we provided, and we are now spending considerable public funds to improve it.

Let me cite one specific example to illustrate some of the problems we face and how we go about solving them: Within the boundaries of Jerusalem, there is an Arab village called Silwan with about 17,000 inhabitants. In 1948, there was no road at all to Silwan. The people used a donkey path that went through an ancient Jewish cemetery. In 1956, the people of Silwan decided they needed a paved road for vehicular traffic and so they poured concrete over the Jewish graves and built a road.

When the Jews returned in 1967, they set about restoring the graves of their grandfathers and great-grandfathers and proceeded to chop up the Jordanian road. The Arabs from Silwan naturally objected vociferously. Within days we took a decision to build an alternative road that would skirt the graves. We allocated $1.5 million, raised the money and completed the road, preserving the graves and providing Silwan with an alternative road, thus

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avoiding a possible serious clash.

The fourth principle by which we administer the city is that continuing efforts shall be made to increase cultural, social and economic contacts among all the various elements of Jerusalemites.

I see the future of the city dependent in considerable part on the close relationships that can develop between its various components. Today we have joint youth camps in the summer attended by 15,000 youngsters, Jews, Christians and Moslems. We have art classes for Arab as well as Jewish young people at the Israel Museum. Hundreds of Arab children attend these classes. Arabs visit and use Jewish clinics and hospitals. We have even built a garden for the blind, on a former battleground, where Jewish and Arab blind now meet. Of course, we are lucky in one respect: there is no color bar. You can walk through Jerusalem's streets and find Jews and Arabs working side by side, and you will not be able to differentiate between them.

Despite all our efforts, it is obvious that the Arabs in Jerusalem still do not accept being included within Israel's frontiers. But then it must not be forgotten that the city's Arabs also complained about occupation when the Turks, the British and the "Jordanian Bedouin" were in control. And they called it "occupation" even then! Under Jordanian rule, they felt that Jerusalem was neglected and that Amman was favored over Jerusalem, as indeed it was. The Jordanian government rejected the idea of establishing its capital in Jerusalem after it had decided to annex the West Bank and incorporate it in the Hashemite Kingdom. Instances of Jordanian neglect—and disrespect—for Jerusalem were numerous. To quote some: contrary to expectation and hope, the Jordanian government rejected a plea to establish an Arab university in Jerusalem and instead they built it in Amman. When the Hospital of the Order of St. John of Jerusalem was about to be built, the Jordanians tried to persuade the Order of St. John to build its hospital in Amman. Only after the Order threatened not to build its hospital at all did it finally get the necessary permission to build in Jerusalem. No industry was started in Jerusalem. The largest single enterprise in Jordan-controlled Jerusalem, outside of hotels, was a cigarette factory that employed 12 people. Under Jordan's rule nothing was done to improve Jerusalem and there was widespread unhappiness during that time. People tend to forget such past unhappiness.

In the divided city there was, too, more violence than there is today. There was intermittent shooting across the border that ran through the city. Every year, people were killed or wounded. There was a feeling of claustrophobia in the city then. There was

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no sense of freedom. Everywhere one went, the street ended abruptly with a sign: "Stop. Frontier. Danger Ahead." Today this is but a faint unpleasant memory of the past for Jew and non-Jew alike.

v

We do not want to make of Jerusalem a parochial city but to restore its ancient glory. We have built a handsome Israel Museum, perhaps the major museum of international art and archaeology between the Eastern Mediterranean and Tokyo. The Jerusalem Museum of Islamic Art and Culture, opened only a couple of years ago, is one of outstanding excellence. The Jerusalem Theater has given us a home for the performing arts. We have built an embryonic center for writers, artists and musicians, at Mishkenot Sha'ananim, to which such world-renowned figures as Pablo Casals, Isaiah Berlin, Friedrich Dürrenmat, Richard Burton, Saul Bellow, Stephen Spender, Alexander Calder, Robert Rauschenberg, Isaac Stern, Simone de Beauvoir, have already come and worked and contributed to the cultural life of the city.

We are deeply immersed in city planning to improve the quality of life in Jerusalem. Our present planning focuses on the Old City and its immediate surroundings. We are developing a green belt around the Old City at great expense. Jerusalem is, I believe, the only city in modern times to create, by purchase, a large central green area such as was preserved by the Boston Common, New York's Central Park, London's Hyde Park, and the Bois de Boulogne of Paris more than a century ago.

To guide us in our planning, we have established a Jerusalem Committee, a unique group of more than 60 eminent people from all over the world: philosophers, historians, theologians, city planners, educators, architects, writers, artists. They gather in Jerusalem periodically and observe what we are planning and what we are doing. Sometimes they criticize us severely; sometimes they praise us. We take the criticism to heart and carry out practically all their recommendations. As a result, Jerusalem is becoming increasingly a more beautiful city literally day by day.

Despite our good intentions and care, there have been controversies. One was over the building of housing for Jews in East Jerusalem outside the Old City walls. This dispute was hardly justified since we did not infringe on any Arab housing. We built mainly on rocky ground newly incorporated into the city. We used no wooded land or land that was employed for agriculture. We removed nothing of value. Our plans call for no further land expropriation in the future.

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At the same time, we have provided for Arab expansion too. Jerusalem's Arabs have the highest birthrate in the world and need more and more room in which to live. City-guaranteed mortgages have encouraged several times the amount of annual housing construction that was carried out under Jordanian rule.

We have paid much attention to the beauty of the Old City. We have permitted no changes there. We are rebuilding to scale the Jewish Quarter that was destroyed by the Jordanians in 1948. We have started to replace the forest of television antennas that disfigure the Old City with a central antenna and cables.

We have been improving living space in the poorer neighborhoods. We have planted trees and modernized schools and improved roads and built playgrounds. We have taken special pains with garbage clearance. We have worked hard to make neighborhoods in which young people will not be ashamed to live. We do not want the younger generation to move out.

Another area of controversy has been our eagerness to reveal and preserve the great heritage of Jerusalem's past. We are preserving more than anyone ever thought could be preserved. For this we were condemned by UNESCO, which charged that we were changing the character of Jerusalem with our archaeological digs.

Arabs living far from Jerusalem and not knowing the truth may perhaps have been worried by our archaeological activities. Some Arabs may even fear that we want to rebuild the Temple and that to this end we would undermine or remove the buildings on the Temple Mount. Their fear is groundless. Jews are not allowed to build the Temple since Jewish religious tradition holds that the Temple is already built and is waiting in heaven for the Messiah to come, when it will descend into its appropriate place. Unless and until the Messiah should come, there is therefore no chance of our disturbing the Muslim Holy Places.

What has actually happened is entirely different. More Muslim antiquities have been unearthed by Israeli archaeologists in these past ten years than in all previous history, thus enriching tremendously the world's knowledge of the Muslim past.

We have other complications. For example, we are now building a road from Mount Zion toward the Dung Gate to relieve traffic in the Old City. In our work, we came upon several levels of remains, remnants of Jewish houses destroyed by Titus in 70 A.D., a Roman road of the second century, the ruins of a large church built by Justinian and on top of that several Crusader towers, and above this again, a moat of a 500-year-old Ottoman city wall which badly needed repair because of neglect by the Jordanians. Not only have

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we changed the alignment of the road at substantial cost and inconvenience, but have also invested much effort and money in preserving the discoveries.

My point is that there is no connection between the complaints about our archaeological digs and reality. People abroad devise stories to feed their political propaganda. In reality we are beautifying, restoring, and preserving Jerusalem, not damaging it. The members of the Jerusalem Committee, people of standing, integrity and independent judgment, came and saw and approved.

VI

Jews care intensely about Jerusalem. The Christians have Rome and Canterbury and even Salt Lake City; Muslims have Mecca and Medina. Jerusalem has great meaning for them also. But the Jews have only Jerusalem and only the Jews have made it their capital. That is why it has so much deeper a meaning for them than for anybody else.

When the city was reunited ten years ago, all Jews, not only the religious but also the secular, felt the ancient prophecy fulfilled. Jerusalem was our capital even when we were not here—for 2,000 years. Nobody else ever made it their capital: on the two occasions the Arabs could have made Jerusalem their capital, they did not. In the Middle Ages they chose Ramle, near Tel Aviv, on the way to Jerusalem, and in 1948 they chose Amman, which they preferred to Jerusalem.

We do not aspire to find solutions to all the problems of the Middle East in Jerusalem. This is a complicated city with conflicting interests and it is impossible to satisfy all the wishes of everybody.

Sometimes people outside the Middle East ask: What is the relevance of what we are doing in Jerusalem in making the city viable, beautiful, peaceful, to the ultimate question of the sovereignty of the city?

We can only look at the situation realistically: If, at worst, Muslim and Jewish differences prove irreconcilable, we will have to live in tension for a long time. All the more reason to care for the city as much as we can to ensure its welfare and well-being in spite of the strains and stresses. If, at best, Jews and Arabs find accommodations that are acceptable to the aspirations of all three faiths, no one would argue that what we are doing for Jerusalem today has been irrelevant.

We want Jerusalem to remain a multi-cultural city—a mosaic of people. By trying to live together, by joining in many activities, and

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by equalizing opportunities and social services, we hope to reduce clashes and lower tensions. There are certainly differences of religion, language, cultural attitudes and political aspirations. But I believe that if the Arabs of Jerusalem are encouraged to feel secure, it should be possible for all to live together in reasonable neighborly relations.

The bottom line is that Jerusalem must never again be divided—with barbed wire through its center, with separate police forces and separate flags. Let it be clearly understood, however, Jerusalem is and will remain the capital of Israel. Given that axiom, we have proven that others can coexist with us. By contrast, during the 19 years of Arab rule, Jews were totally eliminated and limitations imposed on Christians.

In this undivided city our objectives are free movement of people and goods, access to the Holy Places for all, the meeting of local needs, reasonable urban planning and development, the reduction of intercommunal conflicts and the satisfaction of international interests.

It is impossible to find a solution which will be fully satisfactory to everyone, and Jerusalem is not unique in this. One cannot make all the people happy all the time. But I feel we can justly claim that under our administration more problems have been solved for more people than under any previous administration.

To enable the city government to carry out the necessary adjustments, it has been suggested that a special Jerusalem law be promulgated, delegating to the city greater autonomy and greater rights, and putting at its disposal additional financial resources, as is done in many countries with regard to their capital cities. This will help provide the elasticity needed to cope with the problems of a multi-ethnic, multi-religious city, with sometimes sudden tension.

Within an undivided city, everything is possible, all kinds of adjustments can be made, all kinds of accommodations can be considered, all kinds of autonomy can be enjoyed, all kinds of positive relationships can be developed.

In 1967, when attacked by the Jordanians, the Jews were willing to sacrifice their lives for Jerusalem. They would again. There are some Israelis who would give up the Golan, some Israelis who would give up the Sinai, and some who would give up the West Bank. But I do not think you can find any Israelis who are willing to give up Jerusalem. They cannot and will not. This beautiful golden city is the heart and the soul of the Jewish people. You cannot live without a heart and soul. If you want one simple word to symbolize all of Jewish history, that word would be Jerusalem.

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David O. Beim

RESCUING THE LDCS

During the past year a great deal of attention has been devoted to the accumulation of debt by the less-developed countries (LDCs). One recent publication estimated that the long-term public debt of 86 LDCs (including undisbursed amounts) exceeded $200 billion at the end of 1976; and that short-term and private debt amounted to another $50 billion for a total of $250 billion.[1] Another publication estimated that the combined long-term, short-term, public and private debt of the non-OPEC LDCs (not including amounts undisbursed) would total $180 billion at the end of 1976, of which $75 billion was owed to commercial banks.[2] About $45 billion of this is said to be held by the U.S. banks. These figures are generally 20 to 25 percent higher than comparable figures for 1975; indeed, they have been growing at such rates or higher ones since 1973.

For the first time in many years, a large number of people have begun to worry whether the countries could service all of the debt they are incurring and whether the banking system, particularly the large, international U.S. banks, could go on accommodating their increasingly strained financial position. One can reach different conclusions on this issue by pointing to different factors.

Those who are relaxed on the subject, including most of the largest banks, point to historical experience and case-by-case considerations. They note that very few losses have been incurred up to now in LDC lending, though billions have been written off in domestic real estate, corporate and personal loans. They note that the debt servicing burden of LDCs is proportionately not much greater today than five years ago. They show important distinctions within the total figures: some of the debt is short-term and self-liquidating; some is guaranteed by the Export-Import Bank (Eximbank) or its European or Japanese counterparts; much of the balance is guaranteed by or loaned to sovereign governments in the

[1] Donaldson, Lufkin & Jenrette Securities Corporation, *The Banking Industry Lending to Less-Developed Countries*, December 1976, p. 6.

[2] Morgan Guaranty Trust Company, *World Financial Markets*, January 1977, p. 1.

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upper tier of the developing world. While certain problem areas can be identified, they are a small fraction of the total picture.

Those who see a gloomier scenario point to future considerations and macroeconomic trends. In particular, the more-or-less permanent annual OPEC surplus amounted to about $38 billion in 1976; the corresponding deficit falls principally on the non-OPEC LDCs—$32 billion in 1976.[3] Although the developed world is a larger oil consumer, it has the resiliency to balance its affairs through increased exports. The LDCs, now important purchasers of those exports, are left holding the deficit. Borrowing another $30 billion in 1977 to cover the deficit would increase the $180 billion figure cited above by 17 percent. Increments of even 15 percent per year in LDC debt cannot be matched by comparable growth in their economies, so that events seem to be on a collision course regardless of how favorable experience has been so far.

There are really two problems. The first is the overall imbalance and the total indebtedness of LDCs. The second is the role of commercial banks, and U.S. banks in particular, in mediating the imbalance by accepting OPEC deposits and lending to LDCs. Some well-meaning proposals envisage solving the problem through new lending institutions—International Monetary Fund (IMF) facilities, governmental "safety nets," etc. These may help the banks but they do not get to the heart of the matter, which is the too-rapid growth of total LDC debt compared with their ability to pay. If the total indebtedness gets out of control, all lenders could be in trouble.

II

There are worlds of differences among developing countries. One can travel to many parts of Latin America and find regions closely resembling Western Europe. One can also travel to parts of the world where the poverty is so extreme and the resources so limited that the situation seems quite hopeless. Yet all of these are referred to collectively as the "less-developed countries."

The first step toward understanding the LDC debt problem is to realize that the poorest countries have very little of the bank debt, basically because no bank would lend to them. It happens that Brazil and Mexico taken together represent about half of all the LDC bank debt outstanding. Nine countries account for more than 80 percent of such debt, namely: Brazil, Mexico, South Korea,

[3] *Ibid*, pp. 2, 4.

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Taiwan, the Philippines, Argentina, Peru, Colombia and Israel. These countries are quite well along in terms of development. The most severe problems occur in countries that have accumulated debt and do not have the development level to carry it.

Broadly speaking, one can draw a line between the *commercial* developing countries which have regular access to commercial banks and the *aid-dependent* countries which cannot attract much bank lending and mainly depend on foreign aid for their survival. Banks are generally reluctant—and properly so—to get involved in aid-dependent countries. Such countries would not be well served if they could get commercial bank financing, for such financing would be for relatively short periods of time and at relatively high rates of interest. Aid-dependent countries need and should get long-term, low-interest loans through mechanisms other than the commercial system. Alternatively, they should be given outright grants. When aid-dependent countries announce that they are unable to repay their official debts, they are in effect saying that the official loans should have been grants in the first place.

The difference among types of borrowers is mirrored in a difference in type of creditor. About 60 percent of all LDC debt is official (government-to-government) debt, generally foreign aid loans to countries deemed to need such assistance. The other 40 percent is bank debt to countries deemed creditworthy by commercial banks. The really severe problems arise on the boundary between these two categories, e.g., in Zaïre. Banks, impressed by that country's natural resources, extended large five to seven year credits at market rates of interest. In retrospect, Zaïre should doubtless have remained longer in the sphere of long-term development lending and concessional foreign aid. The passage from the "Fourth World" to the "Third World" can be hazardous for all concerned.

The difference in behavior between commercial countries and aid-dependent countries was brought out dramatically by events surrounding the UNCTAD IV conference in Nairobi in May 1976. In preparation for this meeting, a group of developing countries gathered in the Philippines and issued the so-called Manila Declaration. This document called for "waivers or postponement of interest payments and/or amortization, cancellation of principal, etc. of official debt to developing countries seeking such relief. In that framework the least developed, the developing landlocked and the developing island countries should have their official debts cancelled." The reaction against this proposal by banks and, more significantly, by commercial countries eager to maintain their credit standing, was dramatic.

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The U.N. staff paper on policy issues facing the UNCTAD conference greatly softened the Manila proposal in response to the strong desire of commercial developing countries to dissociate themselves from it. In this paper a clear distinction emerged between "most seriously affected" countries and the rest: "The most seriously affected countries should have their debt-servicing payments on official assistance loans waived for the remainder of the decade. . . . With regard to other developing countries whose debt relates mainly to guaranteed or unguaranteed private loans, the problem arises from the short-term structure of the debt. Many of these countries do not appear to be in need of concessional debt relief nor do they wish to engage in multilateral negotiations that would affect their continued access to capital markets. But these countries will clearly benefit from arrangements that would iron out the 'bunching' of private debt over a longer period."

So there is the real distinction: very poor countries are pressing for general waivers of official assistance, i.e., aid repayments. Such countries will always need to feed their people before making debt service payments and may never be in a position to pay their debts. But the maximum risk in a commercial developing country would appear to be rescheduling. Such countries appear to be resilient enough to eventually balance their current accounts, as the developed world has generally done, if given enough time.

To be commercially creditworthy, a country should be in a position to balance its current account within the time frame of the loan, i.e., five to seven years for typical bank loan maturities. This is not to say that the current account *will* be balanced in that time frame, but the potential for eventual balance must be visible. This is indeed the criterion for distinguishing between commercial countries and aid-dependent countries. In the latter category, there is simply nothing visible which could possibly redress the balance in such a short time frame; therefore these countries ought not to receive commercial loans and should instead have long-term loans or grants.

The current account of a commercial developing country can often be brought into balance if growth is slowed. Capital goods imports account for 30 to 40 percent of total imports in most commercial developing countries. For example, capital goods imports represent 33 percent of total imports for Brazil, 37 percent for Turkey and 39 percent for Algeria. Capital goods are generally a discretionary import as opposed to items such as food and raw materials necessary to keep the economic machinery running. When it is said that creditworthiness depends on the ability to right

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the current account, this means that growth may have to be curtailed.

However, some countries are unwilling to slow their rate of growth in order to maintain their access to credit. They are developing so rapidly that they risk reaching a point of congestion in which the difficulty of obtaining enough new loans imperils prompt payment on the old loans. The typical problem of the commercial LDC is not poverty and stagnation, as in the aid-dependent countries, but excessive borrowing for too many projects, all of which cannot be implemented at one time.

III

Let us examine closely the possible scenarios resulting from such congestion. Here is a list of possibilities:

(A) The country could attempt to renounce its debts and not pay at all.

(B) The country could begin lagging payments, paying obligations behind schedule or sometimes partially.

(C) The country could warn the banks of impending congestion and ask for a rescheduling of debts.

(D) The country could request new loans for the purpose of avoiding a rescheduling.

It is option A which many people have in mind when they sound alarms over LDC lending. The Manila Declaration conjured up the vision of LDCs banding together in order to renounce their debts jointly. As noted above, however, this was principally an effort on the part of aid-dependent countries to convert official aid loans into grants or at least to eliminate payments on them through the rest of the decade. Renunciation of bank debt by commercial countries seems exceedingly unlikely.

There are, of course, some situations in which renunciation could happen, such as a communist takeover of the country concerned. Some of the true bank losses in LDC lending have occurred in Cuba and Southeast Asia, where ties with the Western financial community were totally severed following the installation of a communist regime. This kind of radical break can and has caused actual losses. Yet some day, however long it may take, these countries may wish to normalize relations with the United States.

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When they do, settlement of these long-defaulted loans will be an item on the agenda, so part or all of the loss may indeed be recoverable.

Short of a total break with the West, debt renunciation is not likely to be a workable solution for the over-extended government of a commercial LDC. Most governments depend quite totally on the international banking system to handle their flow of trade. The sale of a country's products abroad can hardly be handled entirely on a barter basis; it will require deposits of money, checks, transfer of funds, short-term trade credit and other bank operations. The banks would surely pursue remedies such as attempting to attach assets and products of the country through legal channels. The LDCs cannot afford to flout the banks. Indeed, the tendency in real life is for the banks and the troubled LDC to draw closer together. As we shall see from examples below, the real danger is not that the LDC would walk away but rather that the banks could get too deeply entangled in the country's internal policies.

Option B—lagging payments—might succeed briefly, but is at best a temporary measure. Furthermore, it damages a country's reputation for the longer run. It only postpones the day of reckoning, and makes the reckoning more severe when it comes. One sees this form of behavior principally in the "borderline" countries between the aid-dependent group and the commercial group; those which perhaps should not have attracted commercial lending in the first place.

Option C—seeking rescheduling—is a more sophisticated alternative. While banks do not welcome reschedulings, they can live with them quite well provided interest is kept current, i.e., only principal repayments are deferred. Current payment of interest has characterized the great majority of (but not all) country-wide reschedulings during the past 20 years. If interest remains current, the loan remains profitable, and the difference between it and an unrescheduled loan is not great. The great majority of LDC loans rescheduled during the past 20 years have been paid promptly as due.

Rescheduling is acceptable to the banks because, in a total sense, banks do not wish to be repaid at all. Bankers would never phrase it quite this way, but the fact is that they wish to keep their money working. The softness of loan demand in the past year has been a problem for most banks. Correspondingly, most corporations and virtually all LDCs are more or less permanently in debt. Although the amount of indebtedness rises and falls in accordance with the economic environment, it is expected that any company or country

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which is rapidly growing will always require some amount of debt financing.

Banks, however, like to keep a short maturity on their loans. For most customers they will offer five years and for certain customers they will extend to seven years, but rarely is a commercial bank willing to accept a longer payment term. This policy is based in the liability structure of the banks themselves. The banks lend money deposited with them principally as demand deposits and relatively short-term time deposits. Depositors need to feel that their deposit can be withdrawn at will, so the banks require a significant fraction of their loan portfolio to come due each year. As a practical matter, it is unlikely that deposits in the aggregate will be withdrawn or that new loans will not be made to substantially the same group of customers. What the bank needs is assurance that the borrower can pay back as necessary. Only if the bank were to doubt that the borrower could repay would it be likely to resist rolling forward the loan. It is entirely a game of confidence: the depositors must feel confidence in the bank, and the bank must feel confidence in its borrowers. If the confidence is sufficiently strong, it will never be tested. In banking, as in military matters, the ideal is strength sufficiently great that no one would feel the need to test it.

Because of the need to maintain confidence, the banks would rather accommodate option D—a new loan—than any of the other alternatives, provided some showing of creditworthiness can be made. The banks have no interest in forcing confrontations involving defaults and reschedulings, with consequent shaking of confidence not only in the borrowers but more particularly in the banks themselves. That was the rigid path taken in the 1930s, with disastrous consequences for both borrowers and banks. Rather, the banks have learned to exercise statesmanship and leadership in helping customers through liquidity crises by offering new loans, albeit on tougher conditions. This pattern of behavior has applied not only to LDCs but also to domestic customers during the recent recession. This is one important reason why the recent recession did not develop into a full-scale disaster like that of the 1930s.

What is the difference between a rescheduling of debts and a new loan? It is nearly metaphysical. The economics are the same—money is repaid later rather than now. It is the psychology which differs—a rescheduling is a confrontation, an admission of failure, an emotional catharsis, while a new loan is business as usual.

I do not mean to imply that banks make new loans blindly or as a cover-up for past sins. Each new loan must be negotiated at considerable length, and each negotiation is a forum for discussing the

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borrower's financial condition and measures that must be taken to improve it. New loans to distressed borrowers are typically accompanied by certain conditions or targets which the borrower is expected to meet. These may be informal or written into the loan agreement. The more distressed the borrower, the more aggressive and formal are the conditions likely to be. Finally, there is a level of distress beyond which most banks simply will not go on any conditions.

IV

Three examples drawn from 1976 may help to clarify how these principles work out in practice. The three are Argentina, Peru and Zaïre.

Argentina was near economic and financial collapse when a military government assumed power in March 1976. Wholesale prices were rising at a 2,000 percent annual rate, real GDP had fallen two percent during 1975, and the 1975 current account deficit had reached $1.3 billion. Foreign exchange reserves were virtually exhausted as only a small part of the current account deficit could be financed. Commercial banks were not prepared to lend any further amounts because of lack of confidence in the economic and financial management of the country. Loans outstanding to Argentina from U.S. banks, however, stood at more than two billion dollars. None had actually defaulted, although it was clear that the situation could not continue for long.

The first instinct of the new government was to try option B to gain time; banks were quietly asked to exercise patience and not press too hard should some payment delays be experienced. The banks, however, wished to regularize any deferral of payments, and before long a six-month deferral of payments had been agreed upon. Thus the country moved toward option C. It was reluctant, however, to face a full-scale Paris Club rescheduling – which it had gone through in 1962. Moreover, its new Finance Minister perceived the advantages of option D. By June he was in the United States soliciting additional loans in lieu of rescheduling. The key to his success was his comprehensive economic program and its full acceptance by the military government. The U.S. banks were sufficiently impressed that they granted $500 million of new loans; the Europeans quickly followed with $350 million; the Japanese loaned $75 million and the Canadians $70 million.

By the end of 1976, a large current account surplus had been recorded, reserves were back up to $2.2 billion, and some progress was made in shaping up the domestic economy. Because the gov-

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ernment's program seemed so well conceived, the new loans carried very few special conditions. The country seemed to have passed through its worst point and to be on the road to recovery. The speed with which new policies had been able to turn Argentina around illustrates the basic resiliency of commercial countries.

Peru followed a similar path in 1976, although with some significant differences. It had a current account deficit of $1.5 billion in 1975 and had virtually exhausted its international reserves as banks became increasingly unwilling to lend further amounts without economic reform. Existing bank lending to Peru stood at just under two billion dollars by mid-1976. The military group which came to power in August 1975 attempted to raise $400 million of new loans in the spring of 1976, but an impasse soon developed. The banks refused to lend without very significant economic improvement, while Peru maintained that a rescheduling would be necessary if new loans were not forthcoming.

In June 1976 the Peruvian government announced a new economic program including a 31 percent devaluation of the sol, higher excise taxes and higher prices for transportation and electricity. The announcement of the program was followed by riots in Lima, a national emergency and dismissal of the Prime Minister and two other members of the junta.

Nevertheless, the stabilization program was maintained substantially intact. In August an agreement in principle was reached for a $220 million loan from a group of U.S. banks. The loan was accompanied by a side letter setting down the policy understandings on which the loan was granted, including periodic reporting on economic progress. The arrangement broke new ground in the field of LDC lending. Not in recent memory had the banks been so fully drawn into the policymaking process within an LDC.

This example illustrates vividly the thesis referred to earlier: the real risk in LDC lending is not that the countries will walk away from the banks, but rather that they will draw the banks too deeply into their own internal affairs, making them a target of popular resentment over conservative economic policies. Such policies are not actually "imposed" by the banks; indeed certain members of LDC governments may feel strongly that such policies are appropriate, and they may welcome the presence of the banks as an excuse for adopting politically unpopular policies. Some local politicians may like having a lightning rod to draw off the adverse reaction of the people. But this carries a clear political risk to the banks and to the United States generally.

Zaïre is an even more interesting case. Neither Argentina nor

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Peru actually defaulted in any significant way. Zaïre, on the other hand, began in early 1975 to lag on payments or ignore a number of debt service billings. It pressed option B to its limits. Pressure on the country to normalize its finances built up rapidly through 1975 and early 1976 from both banks and creditor governments.

Zaïre's problems were also deeper and more intractable than Argentina's or Peru's. Its per capita income and general level of economic development would not have attracted much bank lending except for its considerable natural resources, including some of the world's richest copper deposits. The economy of the country thus depends heavily on copper mining, particularly for the provision of foreign currency needed for imports and for debt service. Copper production was severely disrupted by the war in Angola, which cut off the Benguela Railway, a major artery to and from the copper mining region. The war also drained resources directly from the government, which was supporting one faction. In addition to this, copper prices fell drastically in 1974 and 1975. Finally, the government had embarked on a number of non-productive projects and had nationalized most of the private sector in 1974–75, without having the capacity to operate it. By late 1975 the economy was in severe disarray and foreign exchange reserves were exhausted. Banks avoided any new exposure and were delaying the signing of a previously committed large loan for a new copper mine. Then, in early 1976, the shareholders of the new mining project suspended further construction and the related loan was abandoned. Commercial bank loans to Zaïre were estimated at about half a billion dollars, although poor record-keeping made an exact determination impossible.

In the spring of 1976, after more than a year of defaults on both principal and interest, Zaïre announced an economic stabilization plan, conceived in cooperation with the IMF, and requested a general rescheduling of its debts. It moved, in effect, from option B to option C. The major creditors gathered in Paris, as is the custom in such cases. Principal and interest in default to governments, or to banks guaranteed by governments, through June 1976, was rescheduled over a ten-year period, together with principal due in the second half of 1976. Interest due in the second half of 1976 was expected to be paid currently. A further rescheduling of principal due during 1977 was expected to be discussed during 1977, although it was hoped that interest payments could remain current.

The commercial banks were then invited to reschedule on similar terms, and to share with the governments in a special fund

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equaling 10 percent of export receipts, which would be set aside for service on rescheduled debt. The banks, however, resisted the ten-year stretch-out and came up with a different plan: option D.

In November 1976 an agreement was reached with four features. First, Zaïre would bring current all overdue interest to the banks. Second, it would make the 10 percent fund available to cover interest due on bank debt, and also possibly bring principal current in due course. Third, Zaïre would accept conditions proposed by the IMF for its second and third borrowing tranches from the IMF. Such conditions are usually considered very stringent. Fourth, after the first three steps were accomplished, Citibank agreed to use its best efforts to arrange a $250 million new loan. It was anticipated that the new loan would be placed primarily with those banks already committed to Zaïre, whose loans would have to be rescheduled if the new loan did not succeed.

Like the Peruvian arrangements, this was hailed as a new model, a pattern for other troubled countries to follow. Rather than abandon financially pressed LDCs, the banks would stick with them and show them how to restore their creditworthiness. This was the boldest experiment yet in redirecting a country's internal policies. The assistance of the IMF in defining appropriate economic policy was a key factor, though the IMF may have been somewhat reluctant to assume this leading role.

As of this writing, the above program has not been implemented. The incursion into Shaba province has raised new uncertainties, so that the debt problems of Zaïre are far from settled.

V

The experience of 1976 has been quite favorable. Crises have been deftly handled as they arose: defaults have been consolidated into reschedulings, and reschedulings have given way to new loans. Only the case of Zaïre remains unresolved. If it were not for the continuing surplus on the Arabian peninsula, one could see equilibrium before long as the world moves out of recession.

Unfortunately, the persistence of the surplus makes it very likely that LDCs' debt will continue to grow, in the aggregate, much faster than their ability to carry it. The pressure caused by this imbalance will first affect the weaker of the commercial LDCs, but in time is bound to cause problems for more.

The most likely expression of this problem, as noted above, is nothing so dramatic as debt renunciation and the collapse of banks. Rather, banks will be increasingly reluctant to lend and will put

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greater pressure on the LDCs to slow down their rate of growth and initiate austerity programs. Some such austerity may be prudent economic management, but stronger doses of it could be dangerous both politically and economically.

Belt-tightening can be practiced by developed countries and perhaps by the wealthiest LDCs, but most LDCs are on the last notches of their belts already. The riots in Lima following the new austerity program in Peru during 1975 were noted in the last section. More recently, an austerity program was announced in Egypt at the instigation of the IMF as a condition of a new loan. It involved cutbacks in food and fuel subsidies; its announcement was followed by three days of rioting in which 78 people died. The austerity program was withdrawn following the riots, and the loan went forward on softer conditions but at a smaller amount. There are internal political limits beyond which austerity cannot be pressed without upheaval.

Furthermore, as noted in a recent congressional staff study, reduced LDC demand could have a recessionary impact on our own economy. Austerity programs urged by the banks mean fewer orders for our own manufacturers.[4] There has been an element of this in the international economy during the past year. Recessionary trends in the United States in turn reduce U.S. demand for LDC products and further aggravate the LDC current account deficit.

The risk, then, is that excessive LDC debt will lead to pressures by lenders to reduce economic growth, and that this will cause political disruption and be economically recessionary. This is already beginning to happen in a few countries; it could well happen in others.

No problem as large as $200 billion has a single solution. Rather, many efforts must be combined to prevent it from getting out of hand. Some of these are within the control of OPEC, whose high prices have clearly caused the bulk of the present imbalance:

— The OPEC countries could reduce their prices. Unlikely as it may seem today, pressure for relief may build from the LDCs. It is astonishing to see how little the LDCs have done to press for lower prices, given the central role of high oil prices in their financial difficulties. Moreover, Saudi Arabia shows definite signs of understanding the dangerous consequences of ever-higher oil prices.

[4] *The International Economy and the Federal Budget,* prepared by the staff of the Senate Budget Committee, December 1976.

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– The OPEC countries could spend their surplus. Indeed, they have spent far more than anyone imagined possible in 1973. Most OPEC countries not on the Arabian peninsula are in balance or slight deficit. Saudi Arabia, Kuwait and the United Arab Emirates, however, because of their small populations, have a clear limit on spending ability. Their growth programs are limited by their capacity to implement new projects, which now may be nearly reached.

If the surplus cannot be made to disappear, the next question is whether it could be recycled to the LDCs without major U.S. banks acting as intermediaries. Here are two possibilities:

– The surplus countries could lend their surplus directly to the LDCs. They would assume direct responsibility for the creditworthiness of the LDCs and perhaps acquire greater interest in the problems caused to them by higher oil prices. Except for a few aid funds, however, the surplus countries have shown little interest in taking a risk with their money.

– The banks could insulate themselves by accepting deposits from the surplus countries (or deposits beyond a certain limit) only in special subsidiaries or consortium banks which could be in the sole business of LDC lending. While this would require an unprecedented degree of self-restraint and cooperation among normally competitive banks, it would have the effect of segregating LDC risk and holding it for the surplus countries' own accounts. To be effective, this program would require broad support by the governments of the developed countries.

These measures, if they could be implemented, would definitely be constructive. They would ease some of the burden on the banks and provide some relief to the LDCs. Perhaps most important, they would further draw the surplus countries into the comity of nations, giving them a more direct responsibility for the health of the world economy. By lending directly to the LDCs, the surplus nations may become more keenly aware of the dangers of global financial imbalance.

Like the banks and like the IMF, the Arabs would doubtless seek to impose conditions on their lending if, as is likely, they wished to protect their surplus. This would have all the political and economic consequences of conditions imposed by other lenders, although a sharing of the inevitable criticism might be welcome.

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Furthermore, extensive lending to LDCs directly by certain Arab countries would give them a political weapon they do not now possess. The West might not entirely welcome the addition of financial power to their already awesome oil power. Thus, there are limits to the policy of direct recycling away from the banks.

Various governmental "safety nets" or expansion of the IMF's lending role have also been proposed to provide additional funds for the LDCs. If governments are prepared to contribute capital for this purpose, such measures could provide some relief to both banks and LDCs. Such relief, however, is likely to be temporary. When the funds have been loaned out, we return to today's situation except with higher debt levels. Since high aggregate debt levels are the essential problem, we do not necessarily improve matters by making the levels higher yet.

There is, however, a policy direction which goes to the essential problem and would definitely alleviate it. The United States, joined perhaps by Germany and Japan, could run a deliberate current account deficit designed to partly or fully offset the surplus so that the rest of the world could come more nearly into equilibrium. Obviously this deficit could not come from buying more oil, which would increase the surplus by a like amount. Nor could it come from reducing U.S. exports, which would be recessionary. Rather, it would have to come from increased purchase of goods and services from non-surplus countries, which would have a stimulative effect on the international economy.

This policy, of course, would involve easing many tariffs, quotas and other important barriers. It is politically unrealistic to imagine that such a policy could be implemented during a recessionary period. Organized labor is currently pressing in the opposite direction, for increased protectionism. As the recovery proceeds, however, the anti-inflationary bias of a more liberal import policy could provide welcome relief from the overheating pressures associated with strong economic growth.

After all, a current account deficit is not a penalty or a cross to bear, at least for a moderately healthy U.S. economy. It means that we get more goods and services from others than we ship to them. Most countries would be only too happy to run current account deficits if they did not have to borrow to finance them. The United States would not borrow explicitly but simply accept foreign claims in the form of bank deposits or foreign purchase of its Treasury bills and notes. This is the benefit of having the U.S. dollar used as the world's principal reserve and payment currency.

A deficit of this sort would not be likely to depress the foreign

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exchange value of the dollar. This would occur only if the surplus countries decided to convert a significant portion of their dollar holdings into European currencies. But we run such a risk in any event because the dollar surplus already exists, regardless of whether we hold the corresponding deficit or the LDCs do so. Only if the deficit were perceived as a sign of mismanagement would it cause the selling of dollars.

Trade policy is a complex area in which many factors combine to produce particular actions. The LDC debt problem has not generally been uppermost in the minds of those responsible for trade policy. Yet it should be at least one factor in the equation arguing with increasing force against the rising demand for protectionism. Efforts to cut off LDC access to our markets can damage us in ways not often discussed—by reducing LDC purchasing power for our manufactured goods and by making more difficult the repayment of LDC debts to our banks.

We cannot be both internationalists in finance and protectionists in trade, accommodating the LDCs' borrowing needs but denying them the means to earn their way out of debt by providing us with goods and services. The linkage of our banks with developing countries not only makes it difficult for them to walk away from us; it also makes it unlikely that we could walk away from them.

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Harold van B. Cleveland
W. H. Bruce Brittain

ARE THE LDCS IN OVER THEIR HEADS?

Since 1974—when the oil crisis hit and the world recession began—a number of developing countries that do not export oil (non-oil LDCs) have been borrowing heavily in the international credit markets. Surprisingly, private banks, not international agencies like the International Monetary Fund (IMF) and the World Bank, have underwritten most of this massive debt buildup, as the table on page 734 shows. And this shift from traditional to non-traditional sources of financing, along with the sheer magnitude of the borrowing, has led to criticism of private banks for their handling of the situation.

Banks, it is said, have overextended themselves in lending to LDCs. They have made bad loan decisions and are now being forced to absorb still more LDC debt in the hope of salvaging earlier credits. Major U.S. and European banks will therefore experience large losses on LDC loans, which would lead to a general financial crisis. To forestall that danger, official agencies should intervene to help reschedule loans. Henceforth, private bank lending abroad should be subject to closer official supervision and, in many cases, public lending should supplant private lending.

These criticisms and proposals raise two basic questions. The first is whether banks have acted prudently in lending to developing countries, evaluating risks reasonably and taking steps to protect shareholders and depositors from loss. The second question is what caused the explosive rise in demand for foreign loans by LDCs during the last three years. If the causes are persistent and LDCs continue to incur debt as rapidly as in the last three years,

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many of them may eventually have trouble servicing their debts. But if the causes are temporary, borrowing by LDCs will decline from present levels and most LDCs should be able to meet their obligations without difficulty.

This essay sketches the broad outlines of the debate on these issues and gives our reasons for believing that the extraordinary surge of demand by LDCs for foreign loans is a temporary phenomenon and that private banks have behaved rationally and prudently in responding to it.

II

Evaluating risk is the business of banking and a good banker is one who judges well and truly the degree of risk in a particular loan or class of loans. Since 1974, bankers seem to have sensed a substantial increase in the "country risk" of lending to developing countries—the probability that an LDC may be unable to service its foreign debt at some time in the future—and they have altered their strategy accordingly.

Country risk may be measured in several ways. We prefer a comprehensive indicator such as the ratio of outstanding foreign debt to national income or GNP, which focuses attention on the size of the debt relative to the total flow of resources out of which it must be serviced. Of course, a country's creditworthiness cannot be judged simply by reference to this or any other statistical ratio. A low debt-to-GNP or debt-service-to-exports ratio might mean high rather than low risk, if the low ratio reflected the country's past inability to borrow. Creditworthiness depends more fundamentally on intangible factors such as the government's political stability and its will and administrative ability to divert resources from current consumption and investment to meet its foreign obligations on schedule. The latter is principally a matter of the government's general economic management and more particularly of its fiscal, monetary and exchange-rate policies. An overly expansive domestic monetary policy, due perhaps to an overly ambitious development program, accompanied by a fixed exchange rate, will cause a country to lose reserves and its credit rating to fall, even if its existing debt burden is low. *Per contra,* a country with a high foreign debt burden, objectively measured, will be a "good risk" if lenders expect the economic authorities consistently to give a high priority to keeping the country's overall payments in equilibrium or surplus.

On balance, however, it is clear that the perceived risk of lending to LDCs has increased. As we see in the accompanying table, in the

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TOTAL LONG-TERM PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT OF SELECTED DEVELOPING COUNTRIES*

(billions of U.S. dollars)

	End – 1973		End – 1974		End – 1975		End – 1976
	Total Debt	Owed to Banks	Total Debt	Owed to Banks	Total Debt	Owed to Banks	Total Debt
Latin America							
Argentina	2.89	.66	3.35	.63	3.16	.52	4.20
Brazil	6.92	2.60	9.30	4.40	11.50	5.80	15.00
Chile	3.04	.51	3.73	.55	4.00	.50	4.20
Colombia	1.94	.22	2.12	.26	2.36	.37	2.70
Mexico	5.42	2.36	8.08	4.24	11.25	6.66	14.00
Peru	1.44	.56	2.07	.95	2.67	1.34	3.30
Asia							
China, Republic of	.96	.05	1.16	.14	1.69	.42	1.90
Korea	3.20	.31	3.98	.64	5.23	1.00	6.20
India	10.40	.03	11.24	.01	11.88	.02	12.20
Pakistan	4.30	.06	4.52	.08	4.89	.11	5.50
Philippines	.81	.22	1.03	.28	1.28	.32	1.80
Thailand	.44	.01	.51	.02	.62	.05	.80
Africa							
Egypt	1.73	.19	3.89	1.08	6.31	1.21	7.30
Tanzania	.46	.02	.61	.02	.79	.01	.96
Zaïre	.89	.41	1.31	.66	1.68	.89	1.90
Zambia	.57	.23	.68	.21	.95	.35	1.20
Total of above countries	45.41	8.44	57.58	14.17	70.26	19.57	83.66
Others	11.89	1.21	15.82	3.03	20.24	4.53	26.34
Total, 71 non-oil LDCs	57.30	9.65	73.40	17.20	90.50	24.10	110.00

SOURCE: World Bank and Citibank estimates.

* Debt contracted by the public sector of the borrowing country or by a private borrower with the guarantee of the public sector with an original or extended maturity of more than one year, repayable in foreign currency, goods or services. Such debt encompasses the bulk of a country's external debt, but not all of it. By definition, it excludes all short-term credits and all long-term non-guaranteed private borrowings. Adding these credits to long-term external public debt brings the total debt of 71 non-oil LDCs outstanding at the end of 1976 to somewhere around $160 billion. Data on public and publicly guaranteed debt are collected and published by the World Bank. Unfortunately, the data on the other types of debt are neither as reliable nor as comprehensive as those of the World Bank and are therefore of only limited value.

last three years, the net foreign indebtedness of the 16 non-oil LDCs that have done most of the borrowing grew at an annual rate of 15 percent, in real terms (i.e., allowing for inflation). In the same period, these same countries' combined real GNP grew about 4.5 percent per annum. Thus their external debt has been growing faster than their capacity to carry it, which raises the question of what private international lenders have done to protect themselves.

Banks respond in two ways to a change in the perceived risk of lending to a particular class of borrowers. On the one hand, they

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vary their interest charges on loans in accordance with differences in risk, as judged by the market. On the other hand, they diversify their portfolios so as to avoid the possibility that the failure of an important group of borrowers—those located in one LDC, for example—to meet payments on schedule would involve a substantial loss relative to the lending bank's capital. To this end, banks establish "country limits"—limits on the total amount of credit they will allow to be outstanding to borrowers in a particular country.

Commercial banks like other financial intermediaries exist for the purpose of assuming credit risks that their depositors would be unwilling to assume individually. To carry on the function of intermediation and risk-bearing, banks must charge borrowers a markup over the cost of funds, which includes a risk premium. The premium is analogous to the "pure insurance" element in an insurance premium. Its economic function is to provide an additional stream of earnings which a bank may draw on to compensate losses.

The credit judgments that underlie the rates at which banks are willing to lend are market judgments. Each lender makes his own decision whether and how much to lend, but it is the collective judgment of the market that determines the rate the borrower pays. Lending officers do not normally vary the rates they charge on the basis of individual borrowers' risk characteristics; nor do they make a loan they consider risky simply because a would-be borrower may be willing to pay more than the going rate for a borrower in his class. If the risk appears higher than normal, the bank will cut back the amount or term of the loan or refuse the loan entirely. The rates charged the various classes of borrowers, including the risk premia they contain, are determined by competition and arbitrage in credit markets—a process which is neither consciously controlled nor directly observable by lenders and borrowers. The underlying judgment the market makes is that the total amount of premium which a bank with a normal loan portfolio will receive will be sufficient over time, in the circumstances expected to prevail, to compensate for earnings the bank foregoes due to deferred payments of interest and principal.

From these considerations it seems to follow that an international bank with a loan portfolio that is relatively normal in its distribution among classes of borrowers will probably be adequately cushioned against the loan losses it will occasionally incur. This is true at any rate in the absence of a general economic catastrophe, such as a prolonged world depression, which falsifies fundamentally the expectations that underlie the market's assessment of risks.

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The bulk of bank lending to non-oil LDCs during the last three years has consisted of Eurodollar or other Eurocurrency term loans provided by syndicates of U.S. and European banks. Such loans are customarily floating-rate notes priced by charging the borrower the cost of Eurocurrency funds to the lending banks—that is, the London interbank offering rate (LIBOR) at the beginning of each payment period—plus an additional percentage, known as the "spread over LIBOR." The accompanying chart covers syndicated Eurodollar loans extended to 12 important LDCs (Zaïre, Chile, Zambia, Korea, Egypt, Mexico, Taiwan, Colombia, the Philippines, Brazil, Thailand, Argentina) in 1974, 1975 and 1976. For each country and each year, it plots the size of the additional percentage, or "spread" against the country's current debt-to-GNP ratio. As may be seen, the spread varied more or less systematically with the country's debt-to-GNP ratio. While factors other than credit risk also cause spreads to vary among countries, the chart implies that loans to countries with higher debt burdens were seen by the market as presenting a somewhat greater risk of loss.

The chart also shows that the banks' evaluation of risks of lending to this group of LDCs increased over time; in other words, abstracting from the effect of rising debt-to-GNP ratios, spreads were generally higher in 1975–76 than in 1974. Evidently, the deepening recession caused lenders to modify earlier credit judgments and to require more insurance against risk of default. These findings suggest that the credit markets indeed responded rationally as the burden of LDC debt rose and world economic conditions worsened.

While the size of the risk premium contained in the rates charged LDC borrowers is often only a fraction of a percentage point, when it is multiplied by the principal amount of the loans involved, it yields a substantial addition to a bank's earnings stream which serves to insure the bank's capital and its depositors against loan losses.

Banks have also protected their capital from the risks of lending to non-oil LDCs by avoiding undue concentration of their total lending in any one country and in the non-oil LDCs as a group, by means of country and regional limits. In addition, they have obtained special guarantees on LDC loans from private firms or public agencies located outside the borrowing country.

Based on data published by a subcommittee of the Senate Committee on Foreign Relations (Church subcommittee), 21 larger U.S. banks that account for nearly all the foreign lending had each

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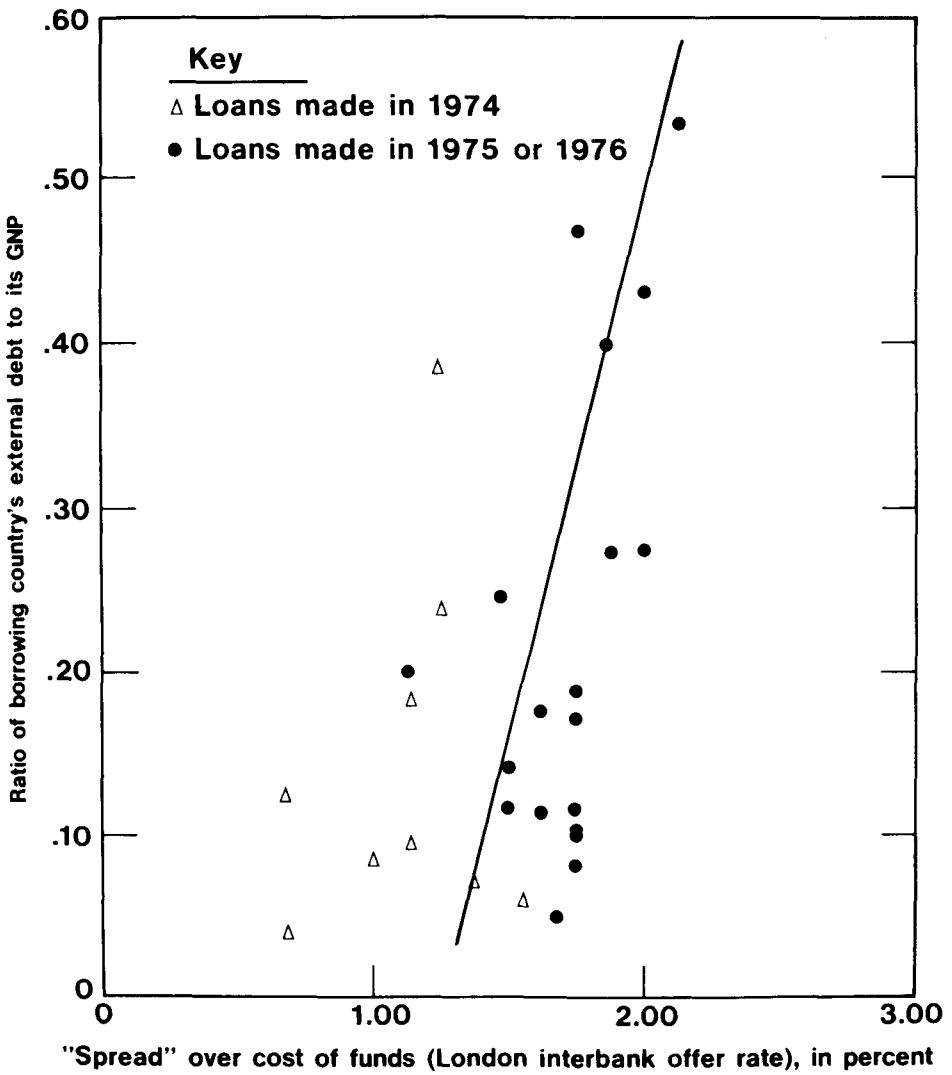
EUROCURRENCY LOANS TO 12 NON-OIL LDC'S

How "Spreads" reflect the borrowing countries' debt: GNP ratios



Source: World Bank and Citibank

NOTE: Each plot point indicates a loan to a particular country made by a consortium of banks in 1974 or in 1975–76. Each point shows the debt: GNP ratio of the borrowing country in the year the loan was made, and the amount by which the interest charged on the loan exceeded the cost of funds to the lending banks; i.e., the "spread" over the London interbank offer rate. The diagonal line shows the average relationship between spreads and debt:GNP ratios. It indicates that higher spreads are associated with higher ratios of external debt to GNP. The size of the spread may be presumed to vary approximately with the risk premium charged the borrower.

invested over one-third of their consolidated assets in foreign countries at the end of 1975. More than one-quarter of these credits went to non-oil LDCs, or roughly 10 percent of the 21 banks' total assets. No single LDC accounted for more than 2.5

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percent of the total. The major part—some 75 percent—of the loans to non-oil LDCs were either covered by the guarantee of a U.S. government agency or a large U.S. firm or were short-term credits (less than one year) or credits in local currencies. In other words, only one-quarter of the loans to non-oil LDCs were term loans in U.S. dollars or other strong currencies, without special guarantees. At year-end 1975, such unguaranteed term loans to non-oil LDCs totaled $10 billion, or 2.5 percent of the 21 banks' total assets. Comparable figures for 1976 are not available for a large group of U.S banks. However, at the end of 1976, Citibank, which accounts for about one-fifth of total foreign lending by U.S. banks, had $3.5 billion of term loans payable in strong currencies, without special guarantees outstanding to non-oil LDCs—a figure equal to 5.7 percent of the bank's total assets.

In judging the adequacy of the measures banks have taken to protect their capital and deposits from the risks involved in lending to LDCs, it is important to observe that in recent years loans to LDCs have normally been made to, or guaranteed by, the government of the borrowing country. Governments that expect to continue to borrow for development purposes do not repudiate their obligations. A default, if it occurs, is likely to involve at worst a temporary suspension of payments on interest and principal, until a rescheduling of principal payments can be arranged. More typically, no technical default occurs (no payments are missed). The borrowing government simply requests the lenders to spread repayments of principal over a longer period.

In consequence, default or rescheduling does not mean that the total value of the loan is forfeit. The loss is only the opportunity cost of having to wait for interest and for a fraction of the principal until a settlement is reached and payments are resumed. And if there is no actual default but only a rescheduling, there is no out-of-pocket loss to the lender. His detriment is only having to extend a doubtful credit for a longer period.

III

However successful banks have been in meeting LDCs' credit needs during the last three years, the future remains uncertain. This is why the key question in the LDC debt debate is not how banks have behaved so far but what conditions they will encounter in the future. To answer this question we need to know why the debt buildup occurred and whether the causes will continue unabated in the future.

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It is generally agreed that the rapid rise of LDC debt was due to a combination of three factors: the oil-price hike, the recession in the industrial countries, and overly expansive domestic policies followed by some LDCs. But there is no agreement on the relative importance of these factors. Some people believe that the main cause was the increase in the price of oil decreed by the Organization of Petroleum Exporting Countries (OPEC). Since the real price of oil is unlikely to fall, it is argued that many non-oil LDCs will continue to borrow heavily until their debt burden reaches the point where they are unable to service it. Another and more sanguine view is that the buildup of LDC debt can be traced mainly to causes that are temporary and self-limiting. According to this view, the primary cause was the severe cyclical recession and slow recovery in the industrial countries. The oil-price hike was a less important factor and most of its effect on LDCs' foreign borrowing was also temporary. Still another view is that the debt problem reflects a failure of many LDCs to "adjust" their domestic policies so as to reduce their payments deficits.

To resolve the debate, an analysis of the LDC debt problem must attempt to determine the relative quantitative importance of the oil-price rise, the recession, and domestic policies in LDCs as causes of LDC borrowing, both in the past and in the future. Moreover, the effect of these abnormal factors must be distinguished from normal development financing. We have tried to answer these questions with a simple statistical model, whose results are given below. First, however, we should explain more precisely how each of the factors contributes to developing countries' balance-of-payments deficits and foreign borrowing needs.

With regard to development finance, developing countries normally import more goods and services than they export—i.e., they have deficits in their payments balances on what is known as the current account—and finance the difference by importing capital from industrial countries in the form of aid, direct investments and loans. The abundance of savings relative to investment opportunities in advanced industrial countries and the opposite condition in developing countries—a relative scarcity of savings—causes this normal flow of capital from developed to developing countries.

As a result of this flow of development finance, foreign claims on developing countries are constantly increasing, and the debt-service and investment-service burdens of developing countries are constantly rising. In normal circumstances, however, this does not cause a balance-of-payments problem, nor does it impair the LDCs' international credit. For the inflow of foreign capital augments

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domestic savings and accordingly makes possible a higher rate of domestic investment and a more rapidly rising stock of productive capital. In other words, foreign borrowing and investment increase a developing country's total income and create additional resources out of which foreign owners and creditors can be compensated for the use of their money. Particular loans or investments may fail to yield the expected return out of which owners can be compensated or lenders paid. Occasionally, a borrowing country's entire development effort may be so poorly conceived or managed as to yield returns too small to provide the margin needed to service foreign debt obligations. But in the normal course of events, this does not occur.

Economic conditions in the last three years have been far from normal, however. Developing countries have been whipsawed by the 1972–73 boom, by the fourfold increase in oil prices in the winter of 1973–74, and by the recession. The boom temporarily strengthened LDCs' international payments. But, by temporarily accelerating their economic growth and raising their imports, it set them up for the one-two punch that followed: the oil-price rise and the deep and prolonged recession in the industrial countries.

The oil-price rise was like the imposition of a heavy tax on the income of oil-consuming countries, for the benefit of oil-producing countries. It transferred some $100 billion of real income in 1974 and somewhat smaller amounts in 1975 and 1976 from oil-consuming countries to the members of OPEC. The LDCs' share of this income loss amounted to about $10 billion in 1974, or 2.5 percent of their combined GNPs. The proportions in 1975 and 1976 were similar.

This income loss was sudden and unexpected. Users of oil in LDCs—private firms, households and public enterprises—had suddenly to increase their spending for oil, but they were unable or unwilling to reduce immediately other spending for consumption and investment to make room, so to speak, for higher oil bills. Thus, their first response was to draw upon existing cash balances and other liquid assets in order to cushion the impact of higher expenditures for oil on their living standards and investment programs. They also tried to restore their impaired liquidity by borrowing. The macroeconomic consequences of these microeconomic decisions were a sharp increase in the value of LDCs' oil imports, a corresponding increase in their current account deficits, a temporary deterioration in their overall balance of payments (i.e., a loss of foreign exchange reserves), a sharp rise in the demand for foreign credit and more borrowing abroad. The bor-

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rowing was mainly from U.S. and European banks whose funds had been augmented by OPEC deposits of "petrodollars."

The reader should note that these initial consequences of the oil-price hike were independent of any changes which governments in developing countries may have made in their general economic policies in response to the oil shock. They reflected the spontaneous reactions of economic units, public and private, to the impact of high oil prices.

As time passed, initial responses to the oil-price rise were modified. Economic units in LDCs gradually cut back other spending to make room for higher oil payments. They did so in order to rebuild cash balances and reduce their abnormal demand for credit; they could not postpone indefinitely a cutback in spending to match real incomes that had been lowered by the high price of oil. As this adjustment occurred, cash balances were rebuilt, the abnormal demand for credit receded and aggregate spending tended to slow down. In consequence, LDCs' total imports slowed, their current account deficits narrowed, their overall payments balances moved back toward equilibrium and foreign borrowing—so far as it was attributable to the price of oil—fell off. This process of adjustment to the oil shock appears to have taken about a year to 18 months.

A homely analogy may help to make this process clear. An oil-importing country's situation in 1974 may be compared to that of a family whose income has been curtailed unexpectedly and permanently when the breadwinner's wages are reduced. The family's response will not be to cut back spending immediately to equal its reduced income. Rather, savings will be liquidated and loans negotiated to ease the transition to a lower standard of living.

But cash reserves are limited and emergency borrowing is a temporary expedient. As the family's debt rises, the utility of further postponing the inevitable reduction in living standards is in time outweighed by the disutility of taking on a larger burden of debt. Sooner or later, the family—or its banker—will call the borrowing to a halt, and spending will be cut back. When the transition to a lower living standard is complete, the family's net worth will be lower by the amount of savings spent and additional debt incurred. This loss of wealth is the price paid to ease the transition.

So in the case of the LDCs that import oil, it has been advantageous to postpone the impact of higher oil prices on domestic consumption and investment, by spending foreign exchange reserves and borrowing abroad. But borrowing for this purpose is,

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by its nature, temporary. As the burden of debt service rises relative to a borrowing country's income, lenders perceive a higher risk in extending more credit to borrowers in the country, and would-be borrowers find it increasingly expensive to obtain funds abroad. The alternative of curtailing domestic consumption and investment becomes increasingly attractive. Sooner or later, the emergency borrowing ceases and domestic spending is held down to a level commensurate with income.

IV

The completion of this short-term adjustment is not the end of the oil-price story, however. As long as some OPEC members lend or invest a part of their oil revenues abroad, oil-importing countries will have larger current account deficits than they would have had if the price of oil had not risen. Collectively, this deficit will be matched by—and financed by—the OPEC members' capital outflow. Individual countries may tap this flow directly, or indirectly via the Western money markets and international banks.

This consequence of the rise in the real price of OPEC oil has led some commentators to say that the foreign debt caused by the oil deficit must eventually exceed the ability of oil-importing countries to service it. But this proposition implies that the additional borrowing by oil-importing countries that is the counterpart of OPEC's surplus oil revenues makes no contribution to the borrowing countries' ability to carry foreign debt. It implies that such borrowing goes mainly to enlarge consumption in the borrowing country rather than for investment, thereby adding little to the country's capital stock and GNP. But why would borrowers go on borrowing indefinitely or lenders go on lending, knowing that the loans were making little contribution to the borrowers' ability to carry debt? Initially, as we have seen, a large part of the borrowing due to the oil shock went to cushion the impact of higher oil prices on consumption as well as on investment in the borrowing countries. But neither lenders nor borrowers could have allowed this sort of borrowing to continue for long. To do so would have undermined the borrowers' ability to borrow.

These points may be put in another way. As noted, the oil-price hike brought about a substantial and lasting transfer or redistribution of income from oil-consuming to oil-producing countries. Assuming that this redistribution of income has not greatly altered the proportions of income saved and consumed in the oil-consuming and oil-producing countries taken together, the transfer does not entail much change in the total world supply of savings. But it

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does mean that more of the world's saving is now done in oil-exporting countries and less in oil-consuming countries. Furthermore, we may assume that the shift in income from oil-consuming to oil-producing countries would not have a substantial effect on investment opportunities (that is, on the marginal productivity of capital) in the two groups of countries. On these reasonable assumptions, there would be a lasting tendency for capital to flow from oil-exporting to oil-importing countries, as a consequence of the higher oil price.

This residual, long-term effect of high oil prices on LDCs' current account balances and their need for foreign capital may be thought of as a moderate addition to their normal development deficits. It reflects a change in one of the structural factors determining international capital flows: namely, the distribution of income between oil-producing and oil-consuming countries.

V

Booms and recessions in the industrial world lead to cyclical fluctuations in the trade and current account balances of developing countries. In a boom, when output in the industrial countries rises faster than its trend rate of growth, LDCs' normal current account deficits diminish. Likewise in a recession, when the growth of output in industrial countries falls below trend, LDCs' current account deficits grow larger.

The explanation of this cyclical pattern is that developing countries' exports go mostly to industrial countries and consist in large part of tropical foodstuffs and industrial raw materials, for which industrial countries' demand is highly responsive to changes in income. On the other hand, LDCs' demand for imports, which come mostly from industrial countries, is a good deal less responsive to changes in LDCs' income. Thus when world income declines, LDCs' exports fall more than their imports, and their current account deficits widen. This result is intensified when income in LDCs falls less than and later than income in the industrial countries. In the 1974-75 recession, the growth of income in the industrial countries slowed down about a year earlier than in the developing countries. The recession in the industrial countries was also considerably deeper than in the LDCs. As a result, the cyclical deterioration in LDCs' current account balances was unusually large and prolonged.

The 1974-75 recession was caused by a turn to restrictive monetary policy in the developed world during 1974 and the early part of 1975. The marked slowdown in money growth in the face of

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rapidly accelerating inflation (due in part to the oil-price hike) caused monetary conditions to tighten sharply. This led to a very large surplus not only in the trade and current balances, but also in the overall balance of payments of the industrial countries vis-à-vis the LDCs. With LDC exchange rates mostly fixed or supported, their foreign exchange reserves declined, slowing the growth of their domestic money supplies. In this way, tight money in developed countries was transmitted to developing countries.

Tighter money in LDCs increased their demand for foreign credit. This led in turn to a sharp rise in foreign borrowing, as the recession and easing inflation in the industrial countries reduced domestic demands for credit and enlarged the supply of funds available for lending to LDCs. The supply of credit available for lending to LDCs increased still more in the course of 1975 and in 1976 as monetary policies in industrial countries eased to stimulate recovery. Thus monetary policy and the deep recession in the developed world led to a steep rise in LDCs' borrowing from industrial countries.

It follows from this analysis that, as recovery in the industrial countries progresses, this complex process will go into reverse. LDCs' current account deficits will diminish, their foreign exchange reserves will rise and their demand for foreign loans—insofar as it was caused by the recession—will shrink. This appears to be happening in 1977. The non-oil LDCs' reserves are now rising strongly and their current account deficits are falling. Bank lending to LDCs is also declining, to judge from U.S. bank statistics and the volume of private Eurocurrency credits in the first months of 1977. However, these welcome developments have come slowly because the recession was unusually deep and the recovery relatively slow. Some foreign borrowing by LDCs, due to the recession, will continue until recovery in the industrial world is complete.

In sum, our analysis suggests that the preponderant cause of the non-oil LDCs' large current account deficits and heavy foreign borrowing during the last three years was the recession, while the price of oil also made an important contribution at the beginning of the period. It must also be recognized that LDCs' current account deficits and borrowing requirements in this period were being steadily enlarged by world inflation, which averaged 8.9 percent a year in 1974–76 (in terms of U.S. dollar prices), and by a rising inflow of capital for normal development purposes.

VI

These conclusions about the causes and probable duration of LDCs' current account deficits and foreign borrowing are based in

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part on a statistical model.[1] But since statistical methods are hard to apply to LDCs—primarily because the data are so poor—model results must be interpreted with more than usual care. The major difficulty was that we could find only ten non-oil LDCs—Argentina, Brazil, Chile, Colombia, Costa Rica, Jamaica, Korea, the Philippines, Taiwan and Thailand—where relevant data covered the whole period 1965–74. Since any shorter time period would have greatly reduced the reliability of the results, we decided to limit the study to those ten countries. We cannot be absolutely sure, then, that our generalizations would apply to LDCs other than the ten chosen. However, at the end of 1976, the countries in our sample accounted for more than 56 percent of the outstanding foreign debt of 71 non-oil LDCs, and for a still higher proportion of LDC debt owed to private banks.

For these ten countries we found, not surprisingly, that borrowing for normal development purposes accounted for only 10 to 15 percent of the deterioration in their current account balances from 1973 to 1975. The increase in the price of oil contributed about 30 percent of the deterioration between 1973 and 1974 but only 10 to 15 percent of the deterioration between 1973 and 1975. Thus, the recession in the industrial countries bears the brunt of the explanation. The recession explains over 55 percent of the deterioration from 1973 to 1974 and nearly 75 percent of the deterioration from 1973 to 1975.

The model was also used to make a projection of the current account deficit (and therefore of the need for foreign financing) in the year 1980. This projection was based on the assumptions that GNP in the industrial countries (defined to include the members of the OECD) will grow six percent per year in real terms between now and 1980, that the price of oil remains constant in real terms and that inflation, measured in terms of U.S. dollar prices, will be six percent per year. The result was a projected current account deficit for the ten countries, in 1980, of about $15 billion, most of which is accounted for by normal development needs. And if antic-

[1] The statistical model is fully developed in the authors' unpublished memorandum entitled "Developing Countries' External Debt and the Private Banks" which is available on request. Briefly, the model relates fluctuations in the ten countries' current account balances, measured as a proportion of their nominal gross national products, to fluctuations in four variables: the value of their oil imports; the industrial countries' output relative to its trend; the trend growth rate of the ten LDCs themselves, and their own internal economic policies. Current account imbalances were measured relative to GNP in order to scale down the contribution of the larger countries in the sample; otherwise, these countries would have dominated the results. Current account balances were defined net of aid and other official "unilateral transfers." The data for the ten countries were combined to form one sample, which is the basis for the statistical estimates. The model's results, therefore, may be said to describe a "representative LDC" having the average characteristics of countries included in the sample.

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ipated future inflation is allowed for, the projected 1980 deficit expressed in 1975 dollars would be reduced to $10 billion. Such a deficit in the sample countries may be compared with the peak deficits of $10.8 billion and $12.2 billion, respectively, in 1974 and 1975.

Thus, the model appears to support the conclusion that LDCs' current deficits and foreign borrowing needs will decline in real terms from now on. Since developing countries will continue to grow, it follows that the LDCs' outstanding foreign debt will tend to decline relative to their GNPs. If so, worries about the LDC debt problem in an aggregate or overall sense should soon fade.

So far in this discussion we have attributed none of the LDCs' foreign borrowing to their own economic policies. Indeed, our model suggests that for the "representative LDC," this factor does not have much weight. The model includes a variable that measures the effect of domestic economic policies in LDCs on their current account balances, but this policy variable had no statistically significant effect on the current account balances.

This finding is of considerable interest. It contradicts a widespread opinion to the contrary, which we also shared before making the analysis. It probably reflects the fact that many LDCs are of small or medium size, with open economies and domestic markets rather highly integrated with markets in the rest of the world. Such countries have little to gain and much to lose from following monetary policies that are more expansive than those of the industrial countries. If they do so, holding their exchange rates fixed, the resulting losses in foreign exchange reserves will quickly offset the effect of the expansive policy on the domestic money supply. As a result, the expansive policy will have little effect on domestic income and employment.[2]

On the other hand, a large developing country, by adopting an expansive policy, can cause its domestic money supply to grow more rapidly even though the exchange rate is fixed. The country will lose reserves, but because the economy is less open, the loss of reserves will only partly offset the effect of the expansive monetary policy on the domestic money supply, income and employment. In consequence, during a world recession, a large developing country will be able to maintain a higher rate of real growth, and suffer less unemployment, by following an expansive monetary policy, if it is willing to sacrifice foreign exchange reserves.

[2] In principle, a small country could avoid reserve losses by allowing its exchange rate to float. However, a floating rate can be disruptive in an open economy where the ratio of foreign trade to domestic output is high. Smaller countries are therefore inclined to maintain relatively fixed exchange rates, and to avoid highly expansive domestic monetary policies in order to safeguard their reserves.

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As an alternative to spending foreign exchange reserves, the government of a large country can support the currency by official borrowing abroad—or by offering special incentives to domestic banks and enterprises to do so. Such compensatory or balance-of-payments borrowing, as it is called, can have the same effect on the exchange rate as direct support by the central bank. An advantage of such borrowing is that it serves the purpose—partly political or cosmetic—of keeping the gross revenues of the central bank from declining.

Among the non-oil LDCs, Mexico, Brazil, the Philippines and Korea appear to have followed highly expansive monetary policies along with fixed or supported exchange rates at one time or another during the last few years. They did so for various reasons. In Mexico's case, this policy began as early as 1971 and was a consequence of President Echeverría's ambitious development and reform goals. In Brazil, Korea and the Philippines, an expansive policy was mainly a response to the external shocks of the last three years. It was an understandable effort to cushion the impact of world recession and the price of oil on domestic economic growth and employment. Of these four countries, only Mexico undertook official or officially induced borrowing on a large scale, to avoid a decline in official reserves. The Korean authorities also did some balance-of-payments borrowing during 1974. In Brazil and the Philippines, the main consequence of expansive monetary policy and support of the exchange rate was to reduce official reserves—and perhaps to increase the perceived risk of lending to these countries—rather than to increase foreign borrowing.

Be that as it may, the pressures exerted by the international markets for bank credit and foreign exchange now appear to have persuaded these four governments to reduce domestic money growth and to allow their exchange rates to respond more fully to the forces of the market. In Korea's case, the policy shift came more than two years ago and resulted in a large gain in reserves in 1975 and 1976. In the other countries, the authorities are moving, or have already moved, to slow domestic monetary expansion, to reduce support of the exchange rate and, in Mexico's case, to scale down official or officially induced borrowing.

Discussions of the LDC debt problem often end with the conclusion that there is need for LDCs to hasten the process of balance-of-payments adjustment, by altering their macroeconomic and exchange-rate policies. Yet this prescription has little relevance to the main causes of the LDC debt buildup. The borrowing that was caused by the industrial countries' recession and the price of oil was the result of external forces and the responses of economic units in

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LDCs to them, rather than of LDCs' internal policies. Borrowing increased because economic units—households, private firms and public enterprises—in developing countries responded to the adverse impact on their liquidity of higher oil costs and declining export revenues by borrowing abroad. Borrowing of this kind cannot be attributed to any failure on the part of LDCs to adjust domestic policies to eliminate balance-of-payments deficits. The relevance of "balance-of-payments adjustment" to the LDC debt problem is confined to the cases where monetary and exchange-rate policies led for a time to large reserve losses or official borrowing.[3]

VII

Diagnosis is prescription. People who believe that LDCs' indebtedness will continue indefinitely to rise faster than the debtor countries' capacity to service debt advocate a general restructuring of existing public and private debt, under international auspices. Those who believe that the debt buildup was the result of banks' eagerness to expand foreign loans at a time of slack loan demand propose more official surveillance of bank lending abroad. Those who attribute a large part of the debt to a failure of "balance-of-payments adjustment" on the part of LDCs want the International Monetary Fund to intervene more actively in LDCs' policymaking. Some also recommend a slowdown of economic growth as a remedy for LDCs' payments problems. And there are those whose misgivings about the rationality of private lending decisions lead them to the extreme conclusion that private banks should withdraw from longer term lending to LDCs, leaving that function to public agencies such as the World Bank.

The preceding analysis lends little support to such proposals. We have shown that as recovery in the industrial world continues, aggregate borrowing by developing countries will decline in real terms. Thereafter, LDC borrowing will consist for the most part of normal development finance augmented to some extent by the long-run consequences of higher oil prices. Proposals for general rescheduling or refinancing of LDC debts, which assume that the debt-service burden must inevitably reach unmanageable proportions, are founded more on fear than on sound analysis.

[3] At the present time there is probably more need for balance-of-payments adjustment, in the sense of a change in domestic economic and exchange-rate policies, in some of the OECD countries than among the non-oil LDCs. This is the case, for example, in Italy and some smaller OECD members, which have followed overly expansive monetary policies and supported their exchange rates by "balance-of-payments borrowing."

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The burden of LDC debt, measured as a proportion of GNP, has been ratcheted up by the traumas of the early 1970s. But even in the case of the 15 or 20 countries that have done most of the borrowing, the burden so measured appears to be bearable except in the case of a few smaller countries. It is noteworthy, too, that the great bulk of the LDC debt is owed by the larger, more advanced countries, which are better able than smaller, less-developed countries to hold back domestic consumption and investment to make room for debt-service payments. Nor does it appear that banks generally have been imprudently eager to expand their foreign loans. The evidence cited above suggests that as the perceived risk of lending to LDCs increased, banks moved to protect their capital and deposits by raising the risk premia in their lending rates and tightening country limits.

In a more positive vein, if U.S. and European banks had not responded when LDCs' demand for credit rose so swiftly in 1974 and 1975, those countries would have suffered far more severely than they did. Foreign borrowing allowed many countries to absorb the oil and recession shocks with relatively small losses of output and employment. This experience hardly suggests that private banks should be shut out of the term lending to LDCs. Rather it suggests that private banks and public agencies such as the IMF have complementary roles.

The IMF enters the picture when a country has trouble servicing its foreign debt and difficulty in borrrowing privately. When the problem is traceable to the debtor country's own macroeconomic policies, the IMF may be able to persuade the government to adopt a stabilization program in return for a standby credit and the IMF's seal of approval. This in turn helps create conditions in which the country's private creditors will be willing to reschedule their claims, in order to reduce its current debt service burden. However, the IMF is rarely able to intervene on its own motion in the economic policymaking of a member country, on the ground that Fund officials or other Fund members consider these policies likely to lead to balance-of-payments trouble. The agency must be invited to come in, and this is unlikely unless the country's international credit has already been affected. Until that point is reached, the only external discipline on a country's economic management is the discipline exerted by the markets for international credit and foreign exchange. In recent years, the effectiveness of that discipline has been demonstrated in the case of several developing countries.

A developing country should not be expected to slow its growth

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in order to damp demand for imports and thereby improve its overall balance of payments. A persistent overall balance-of-payments deficit usually reflects not a high growth rate but an overly expansive domestic monetary policy and a high rate of inflation, in combination with a fixed or supported exchange rate. The trouble can be cured in either of two ways. On the one hand, the country can adopt a severely restrictive monetary policy while maintaining the same exchange-rate policy. In that event, there will be—temporarily, at least—an adverse impact on economic growth and employment, until domestic inflation slows down. On the other hand, the country can allow its exchange rate to depreciate more or less freely, while at the same time reining in domestic monetary expansion gradually rather than abruptly. The falling exchange rate will immediately eliminate the overall payments deficit. Domestic inflation will accelerate at first as the exchange rate falls, but will then slow down, reflecting the gradual cutback in money growth. Meanwhile, there will be little sacrifice of real growth and employment. In our opinion, a gradual stabilization policy of this kind is the right remedy in those cases where an LDC's own policies are the cause of its debt problem.

It is true that developing countries' imports rise faster when their incomes grow faster. But the recent changes in LDCs' current account balances are mainly a consequence of cyclical changes in economic conditions in industrial countries. In present circumstances, this might suggest the conclusion that industrial countries should adopt highly expansionary fiscal and monetary policies for the LDCs' good as well as their own. If this could be done without serious risk of higher inflation, the prescription would be sound. Yet that is hardly possible. More money means more inflation and—sooner or later—another round of monetary restraint and another recession. LDCs and their foreign creditors would surely be better off with a more gradual decline in the need for foreign loans than with a quick decline now, followed by another round of recession-induced borrowing two or three years hence.

Right now, what the world economy needs most is a little peace and quiet. We need a long period of steady expansion of world output and trade, not another inflationary boom followed by another slump that would bring the LDC debt problem back to frighten the world again.

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Richard Portes

EAST EUROPE'S DEBT TO THE WEST: INTERDEPENDENCE IS A TWO-WAY STREET

We have come a long way from the excesses of "Western economic warfare" against Eastern Europe. The past five years have seen an explosion of East-West trade and Western lending to Eastern Europe, including the U.S.S.R., with Western governments, banks, and exporters competing strenuously for East European business. In the atmosphere of détente, a wide range of political and economic forces generated opportunities for profits, which competitive capitalism exploited with characteristic alacrity and flexibility. The sum total of these diverse initiatives has been large-scale Western export of capital, both financial and real, to Eastern Europe. This new East-West economic interdependence now clearly demands the policy analysis which ideally should have preceded it.

The implications of the current situation are obscure even to many of the participants. Central planners are in principle able to use their "foreign trade monopoly" and centralized banking systems to coordinate their international trade and payments, in the light of their political and economic objectives. Even they, however, can be carried along by forces they do not fully understand. For mixed economies and their governments, the problems of international economic policy are that much greater. Neither technocrats nor politicians have yet appreciated the extent and implications of Western capital flows to Eastern Europe, and current attitudes and policies toward East-West economic interdependence could lead to consequences not desired by either side. The debtor-creditor relation can be a difficult one even with the best will in the world, and it is all too easy for miscalculations and misapprehensions to generate tensions which economic interdependence might otherwise alleviate. Whatever the ultimate form of the "new international economic order," the centrally planned

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economies of Eastern Europe will have an important role in it, and we should seek to ensure that the resulting East-West economic and political relations will be harmonious and mutually beneficial.

My primary concern here is therefore *not* with the creditworthiness of East European borrowers, although I do conclude that some countries may encounter serious debt-servicing difficulties around the turn of the decade. This problem is, however, only one of several major issues raised. Even if East European capacities for debt service were not in question, the growing volume of debt and the trade flows behind it have changed East-West relations in ways which policies have not yet begun to assimilate. One must hope that these issues may be discussed publicly without threatening market confidence. So far, Western countries have been inhibited in developing policies toward the debt not only by disagreements over the importance of the problem and lack of information on its dimensions, but also by some concern that any action might rock a rather precarious boat.

The East European debt must, of course, be viewed in the world context of rapidly growing borrowing to finance balance-of-payments deficits, but it is substantial even in comparison to the total debt of all oil-importing less-developed countries. By the end of 1976, the external debt of these non-OPEC LDCs was estimated at $180 billion, of which $75 billion was owed to commercial banks. Corresponding estimates for Eastern Europe (including the U.S.S.R.) were $46 billion and $28 billion.[1] In the narrowly defined Euromarket, however, Eastern Europe accounted for $19.3 billion of the uses of Eurocurrency funds (8.4 percent of the total) at end-September 1976, while non-oil-producing LDCs accounted for only slightly more, $22.5 billion.[2] The non-oil LDCs financed 58 percent of their 1974–76 current account deficits by borrowing from the commercial banking system – the corresponding figure for Eastern Europe was 57 percent. In the international financial community, many now believe that whereas the Euromarket has effectively dealt with shorter-term recycling of OPEC surpluses, in the longer run governments or international organizations will have to play a greater part, supplanting or cooperating with the commercial banks. In principle, if this view is accepted in relation to the non-oil LDCs, it should apply to East European borrowers as well.

The issues raised by the East European debt do, however, differ in several important respects from those commonly discussed in the context of the more general problem. First, although the oil

[1] *World Financial Markets*, January 1977.
[2] Bank for International Settlements (BIS) Press Release, January 1977.

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price increase seriously hurt the smaller countries of Eastern Europe, the deficits of 1974–76 for the region as a whole (including the U.S.S.R.) are *not* oil deficits. Eastern Europe is a net oil exporter and is projected to be so at least until 1980.[3] Thus the sources of the East European deficits must be examined more closely, and the adjustment problem will differ significantly from that of the non-oil LDCs.

Second, the process of assessing future prospects for trade and debt servicing capacity is different for Eastern Europe, because of the characteristics of centrally planned socialist economies and the limitations of our data on them. Similarly, the Council for Mutual Economic Assistance (CMEA or COMECON) must to some extent be viewed as a whole, i.e., as an economic and geopolitical unit dominated by a superpower, with its own internal trading arrangements, inconvertible currencies, and strategic motivations. East-West economic relations cannot simply be seen as a subset of overall international trade and monetary relations, nor can East European debt to the West be viewed merely as a component of total external debt. Indeed, as recently as 1970, say, it would have taken remarkable prescience to suggest that Eastern Europe would be willing to borrow from the West—and the West willing to lend to the East—a sum on the order of magnitude of $46 billion. And the East European countries are not fully integrated into the world financial system: only Romania even belongs to the International Monetary Fund (IMF).

Thus the important issues are not merely creditworthiness and the banks' ability to assess it, or the proper institutional form for financial intermediation between hard-currency surplus countries and East European hard-currency deficit countries. With regard to Eastern Europe, the future roles of official credit facilities and commercial bank finance and the concept of "conditionality," i.e., of finance provided subject to conditions on the borrower's economic policies—both in itself and as a key to access to bank finance—must be examined in the light of economic, political and strategic considerations often quite different from those relevant to the LDCs. The problems for Western policymakers are thus both new and special.

II

Romania started buying Western machinery on credit as early as 1961, but it was not until the 1970s that the hard-currency debts of

[3] J. Russell, *Energy as a Factor in Soviet Foreign Policy*, London: Saxon House for The Royal Institute of International Affairs, 1976.

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East European countries became substantial. The indebtedness then grew much faster than East-West trade, which has been rising rapidly; trade between Eastern Europe and the OECD countries rose by 34 percent in 1973, a further 43 percent in 1974, and 15 percent more in 1975, so that its share in world trade now exceeds six percent.[4] But East European imports grew much faster than their exports, and East European hard-currency balance-of-trade deficits nearly doubled in each year from 1972 through 1975, rising from $2.2 billion in 1972 to $12 billion in 1975; for 1976, the deficit is estimated at $10 billion. Given the small foreign exchange reserves and gold stocks for all but the U.S.S.R., Soviet reluctance to sell gold, and small net invisible earnings, these trade deficits generated roughly equal financial claims by the West on the East.

But the process was not automatic: it required East European need and willingness to borrow, and Western willingness—and perhaps need—to lend. One reason why East European countries found Western capital markets so open in the 1970s was their previous avoidance of debt. Two decades of rigorous financial rectitude had testified to the conservatism of their central bankers. Indeed, some of these have doubtless been uneasy about the scale of borrowing they have since had to undertake, though they manage it well.[5] Under severe economic pressures, their authorities have required them to pursue what they call, with some embarrassment, an "active credit policy." By the late 1960s, the need to increase productivity in the face of a perceived technological gap led the planners to seek substantial imports of Western machinery. Not only equipment and technology, but also consumption aspirations came from the West. After many years of slow growth in real incomes, "demonstration effects" brought strong demands for more and better consumption goods. Moreover, the authorities believed that higher consumption might itself stimulate labor productivity. Finally, organizational and incentive problems made agriculture vulnerable to bad weather, and the early 1970s saw two major harvest failures.

These pressures on the import side were paralleled by problems in selling manufactures in the West. Deficient quality standards and a structure of supply too similar to goods already in surplus in Western markets were major obstacles; the recession beginning in 1974 accentuated them. The increasing agricultural protectionism

[4] Based on CMEA statistics of visible trade; see Deutsches Institut für Wirtschaftsforschung, *Economic Bulletin*, November 1976.

[5] An American banker is quoted as saying, "They may or may not be Communists, but they're damn good professional bankers." *Institutional Investor*, July 1976, p. 47. Both clauses are accurate.

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of the European Economic Community (EEC) has been a further barrier to exports for countries like Hungary, Bulgaria, and Romania. And adverse shifts in terms of trade since 1973 have severely hit all East European countries except the U.S.S.R. and Poland. But although the large-scale borrowing from 1973 onward may at first have appeared to be a short-run response to harvest and terms-of-trade setbacks, the disequilibrium it reflects is more fundamental. Once the East European countries discovered they could borrow large amounts without unacceptable political conditions, it was therefore natural that they should wish to postpone adjustment.

On the Western side, the lending has come from both private banks and governments (through export credit agencies). Western bankers were impressed by the spotless previous record of East European borrowers, and their entrance into the market offered an opportunity for portfolio diversification. The new demand came, of course, against a background of increasing bank financing of balance-of-payments deficits. The Euromarket had been growing rapidly even before large petrodollar deposits began to accumulate. In the subsequent overall process of recycling of funds, East European requirements initially appeared negligible. As the recession deepened and private-sector loan demand in the West fell, Euromarket bank liquidity grew, and East European borrowers had no difficulty arranging large five- to seven-year loans on excellent terms.

The Euromarket is highly competitive, and regulation of Eurobanks is confined to "prudential supervision" through the parent banks by their national authorities. Whether or not this is adequate to safeguard the health of the market as a whole, it certainly has not prevented poor judgment by individual banks of country risk, already demonstrated for several LDCs—and there is no evidence that it has in any way restrained or controlled lending to Eastern Europe. The practice of syndicating major loans, parceling them out among many banks, reduces the risk to each. But each bank's limit on its own exposure in a given country cannot prevent the sum of a country's borrowings from all banks from reaching a total far above the country's capacity to manage in the long run.

Although Euromarket lending has accounted for the major share of the recent growth in the debt, Western governments have also been eager to extend export credits or guarantee (insure) those offered privately, and in the politically more favorable climate of détente, Western firms have aggressively sought Eastern customers. The recession stimulated a competitive search for ex-

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port markets in the East, especially for capital goods, and all the major Western exporting countries except the United States have announced major loan guarantee packages covering various East European countries.[6]

A Marxist (but not East European) interpretation of Western behavior might suggest that regardless of détente, the mature capitalist economies required a vent for both financial and real surpluses, and Eastern Europe was just as attractive a market as the LDCs. Even if détente was a necessary condition for substantial expansion of the debt, there were strong economic motives for détente, just as for the related internal political accommodations on both sides, which could also be seen as "necessary conditions." In expanding their imports of manufactures from the West, the East European authorities have had to accept the superiority of Western technology. In allowing those exports, as well as large quantities of grain, and in taking some raw material supplies from the East, Western authorities have had to accept political and strategic consequences which had long been resisted.

Whereas it could be maintained that in the 1950s and 1960s political considerations dominated East-West economic relations, recent behavior may suggest the converse. We cannot simply conclude, however, that Western policymakers can relax and let monopoly capitalism imperialistically exploit the socialist countries, since not much could be done about it anyway. We surely can have some control over where our capital exports go, how they will affect future trade patterns, and their implications for international relations. On the other hand, policymakers will not have full autonomy, if only because of the size of the already existing East European debt to the West.

III

How does the current East European debt break down, first in terms of the amounts owed by individual countries, second in terms of the types of obligations and their public or private character, and third in terms of the Western countries which have extended official government-guaranteed export credits? The growth and country composition of East European debt are shown in Table I below. Because the East European countries do not themselves provide information on their debts, these figures and others cited below are compiled from scattered Western sources.

[6] At the end of 1974, Congress curtailed further involvement by the Export-Import Bank, which had been growing rapidly since mid-1972. For background and details, see P. Marer, ed., *U.S. Financing of East-West Trade*, Bloomington, Ind.: International Development Research Center, 1975.

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TABLE I

EAST EUROPEAN DEBT TO THE WEST
(billion U.S. dollars)

	end-1970	*end-1974*	*end-1975*	*end-1976**
Bulgaria	n.a.	1.7	2.4	2.8
Czechoslovakia	n.a.	1.1	1.5	2.1
G.D.R. (East Germany)	n.a.	3.6	4.9	5.8
Hungary	n.a.	2.3	3.2	3.5
Poland	n.a.	4.9	7.8	10.4
Romania	n.a.	2.4	2.8	2.8
East Europe (excl. U.S.S.R.)	5.8	16.0	22.6	27.4
U.S.S.R.	2.5	5.9	11.4	14.4
Country total	8.3	21.9	34.0	41.8
CMEA banks	0	2.1	2.8	3.5
Overall total	8.3	24.0	36.8	45.3

* Preliminary estimates.
SOURCES: 1970, 1974 and 1975 based on data provided by Chase Manhattan Bank. Estimate of increments in U.S.S.R. debt during 1976 from *World Financial Markets*, December 1976. Chase estimates of net indebtedness at end-1976 used to derive estimates for other countries.

They undoubtedly have both overlaps and omissions, but they are not inconsistent with trade figures, and however crude, they give an adequate view for our purposes of the size and structure of the debt.[7]

As these figures show, the rate of growth of the total debt dropped somewhat in 1976, in keeping with the slightly reduced balance-of-trade deficit already cited. The overall totals for each year, it should be noted, do not reflect undrawn official credits, committed on signed contracts for goods not yet delivered; these amounted to roughly $10 billion at the end of 1975, by way of example. Nor, conversely, do the stated totals of debt take account of the deposits of East European countries in Western banks, which are of course an offset; at the end of 1976, these were estimated to be about $6 billion. All in all, the end-1976 net total of debt actually taken up amounted to roughly $40 billion, of which about $25 billion was attributable to the six smaller countries, about $12 billion to the U.S.S.R., and about $3 billion to the CMEA banks. At this level the annual interest obligation alone must now be approaching some $3 billion.

In terms of types of obligations, as of the end of 1975 official export credits accounted for just over 30 percent of the overall debt total. Direct credits from suppliers were about eight percent of the total, and the balance was from commercial banks. The official export credits are those guaranteed by Western governmental export credit agencies and usually have had longer maturities than

[7] More detailed data may be obtained from the author on request.

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the unguaranteed private medium- and long-term bank credits—8 to 10 years, say, as compared with 5 to 7 years for the latter.[8] These publicly announced, normally syndicated, Eurocurrency loans are in turn of longer maturity than the remaining Eurocurrency credits, which might run anywhere from three months to three years. The medium- and long-term Eurocurrency credits are normally variable-rate loans, the rate being set as a specified percentage "spread" over the London inter-bank offer rate (LIBOR) and changed to follow this rate every six months.

Looking at the individual countries, the U.S.S.R. and Poland at once stand out for the overall size of their debts. The Soviet debt grew particularly rapidly during 1975, when the U.S.S.R. first went into the Euromarket on a large scale, in part to finance substantial grain imports. Before 1975, most Soviet debt was in guaranteed export credits, with a correspondingly longer term maturity structure. Poland's debt rose by $3 billion in 1975 and by a further $2.5 billion last year. It is divided fairly evenly between export credits and Euromarket loans. Although Hungary led Eastern Europe into the syndicated Eurocurrency credit market, when Poland entered it in 1973, it did so on a large scale, and from then on it has borrowed about $500 million annually in this way. Its official export credits outstanding have also been growing faster than those of any other East European country.

Among the other countries, Hungary and Bulgaria are outstanding for the high proportion of their debt in Euromarket obligations; the opposite is true for Romania, which has relied on official export credits to finance its imports of machinery—in contrast to the raw materials that dominate Hungary's imports. Of the two most industrialized countries, East Germany's debt is quite high in relation to its hard-currency earnings (a measure to which we shall return), whereas Czechoslovakia has followed by far the most conservative financial policy in the bloc, with very little Euromarket borrowing until 1976 and only a modest amount of official credit obligations.

The Euromarket debt of Eastern Europe has been growing more rapidly than officially guaranteed credits: Eastern Europe's net liabilities to Western commercial banks rose from $6.7 billion at the end of 1974 to $20.7 billion at the end of September 1976, and their net liabilities in the narrowly defined Euromarket have been growing at a fairly steady rate of about 75 percent per annum since 1974.

[8] Some of the earlier Eurocurrency credits had maturities of 10 or 12 years, but there have been none of these since 1974, and indeed after 1974 there has been only a single $50-million loan of maturity over seven years.

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This is partly because of the need in 1974–76 to borrow for general balance-of-payments support, especially to pay higher raw material prices (as in the Hungarian case). Even to finance machinery imports, however, Euromarket terms are in some cases better than those of official credits. There are other advantages to borrowing in the Euromarket: no political concessions need be made (conversely, there are no domestic political constraints on the lenders' side) and the funds are not "tied," i.e., they can be used to purchase from any supplier country. But the Eurocurrency debts do have generally shorter maturities, and of the total Eurocurrency debt, less than one-quarter is in the longer term publicized, syndicated loans (and among these, maturities have been shortening). For short-term funds, borrowers can go to smaller banks which so far have relatively little exposure in Eastern Europe, and they are still getting good terms.

Finally, although the proportion of official export credits to total debt has been falling, the total has grown rapidly. The levels of such credits and the way they break down among lending countries as of end-1975, the last date for which reliable figures are available, are shown below:

TABLE II

OFFICIAL EXPORT CREDITS TO EASTERN EUROPE*

	Bulgaria	*Czech.*	*G.D.R.*	*Hungary*	*Poland*	*Romania*	*U.S.S.R.*	*Total*
	(millions of U.S. dollars)							
31 March 1973	376	583	838	219	1234	1593	3877	8420
31 December 1975	737	848	1903	244	5575	1637	9920	19,948
	(end-1975 percentage distribution by lending country)							
U.S.	0	0	0	0	2.0	4.2	4.6	
Japan	10.5	6.1	2.9	0.4	6.6	12.7	8.4	
Austria	2.8	21.1	14.7	2.9	11.6	2.8	3.0	
U.K.	7.1	7.8	3.8	29.0	28.1	16.6	6.9	
France	41.8	17.2	19.7	16.6	20.7	16.3	32.7	
F.R.G.	15.3	26.7	46.3	20.7	9.9	26.9	29.7	
Italy	9.8	6.6	1.8	16.6	5.1	11.0	11.0	
Sweden	4.2	2.1	4.2	0.4	4.1	2.1	1.2	
Other	8.5	12.2	6.6	13.2	11.6	7.5	2.0	
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

* Export credits are government-guaranteed commitments on signed contracts. Aggregate data are from official sources. Breakdown by lending country is derived from *East-West Markets*, September 20 and October 4, 1976. F.R.G. "swing" credit to G.D.R. estimated at $300 million for March 31, 1973 and $917 million for December 31, 1975 (latter taken from *East-West Markets*). Column totals may not add because of rounding.

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It will be noted at once that, whereas American banks are major holders of commercial obligations (directly or through the Euromarket), the United States holds very little of the government-guaranteed debt; this is of course the result of limitations on Eximbank lending and guarantee authority for Eastern Europe imposed by Congress in 1974 and the Soviet refusal to accept the conditions of the 1974 Trade Act (the Stevenson and Jackson Amendments).[9] At present, France and West Germany are the leading official lenders, followed by the United Kingdom, with noteworthy variations in debtor country emphasis among all lenders.

IV

Let us next assess the general factors that bear on Eastern Europe's ability to handle the debt, and then move to the factors (closely related) that will affect the future debt level.

A country's debt servicing capacity depends on the maturity and interest rate structure of its existing debt, the possibilities for exports (on both the supply and demand sides), the possibilities for reducing imports, and the country's standing in international credit markets. The fundamental question is whether the borrowing country can effectively transform borrowed resources into import substitutes or exports. This involves the share of borrowed resources which actually goes into investment; the rate of return on that investment; and the ability to shift the composition of output into import substitutes and exportables, and to release exportables for sale abroad. Debt service requires *both* that domestic savings exceed investment by enough to cover net repayments to foreigners, and that the economy generate sufficient excess of export earnings over import costs to allow payments. In the case of Eastern Europe, the focus must be primarily on export possibilities. East European imports are predominantly raw materials and high technology goods, for which substitution will be difficult even in the medium run. Restriction of imports would probably require doing without.

Evidently there can be no simple measure of debt servicing capacity, and we shall have to consider each country and the region as a whole in some detail. For example, the most commonly used single index of capacity is the debt service ratio—here, annual interest plus amortization on hard-currency debt as a percentage of hard-currency earnings—which ignores both the productivity side of the analysis and the economy's ability to reallocate output to net

[9] See footnote 6.

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exports. As a cash flow concept, however, it may be a useful indicator of possible short-run liquidity problems. The higher the proportion of export earnings already committed to debt service, the more sensitive will be the remainder (the capacity to import) to any fluctuation in exports. No matter how unlucky or temporary, a sudden drop in export earnings might make it impossible to continue even the minimum of essential imports while maintaining debt service. Much then depends on the country's credit standing; nevertheless, of countries with very high (over 30 percent) debt service ratios in recent years, only Israel and Mexico have avoided seeking debt relief, while many countries with lower ratios have had to reschedule.

We do not have the information on interest rate and maturity structures necessary to calculate debt service ratios for East European countries with any precision. An American estimate for the U.S.S.R. is 20 percent in 1975,[10] and on fairly conservative calculations Poland's must now (end-1976) be at least 30 percent, but we cannot really specify the margins of error. What we do have, as a rougher measure of at least the comparative situations, is the ratio of net end-year debt *principal* (credits actually drawn less bank deposits in the West) to hard-currency annual export levels. Table III below shows these figures:

TABLE III

END-YEAR NET DEBT RATIO TO HARD CURRENCY EXPORTS

	1974	*1975*	*1976**
Bulgaria	2.1	3.2	3.4
Czechoslovakia	0.4	0.7	1.0
G.D.R.	1.4	2.0	2.3
Hungary	1.3	1.8	2.0
Poland	1.4	2.1	2.7
Romania	1.0	1.3	1.2
U.S.S.R.	0.3	1.1	n.a.
East Europe (Total)	0.9	1.5	n.a.

* Preliminary.
SOURCE: Chase Manhattan Bank.

The high ratios of Poland, the G.D.R., and especially Bulgaria stand out. Stressing again the roughness of the measure, one may note that on comparable definitions, the ratios for selected LDCs, as of end-1975, were 2.6 for Argentina, 2.1 for Brazil, 3.1 for Chile, 2.6 for Peru, 3.2 for Turkey (excluding sizable invisible earnings), and 0.8 for the Philippines.

[10] J. Farrell and P. Ericson, "Soviet Trade and Payments with the West," in *Soviet Economy in a New Perspective,* a compendium of papers prepared for the Joint Economic Committee, 94th Cong., 2nd Sess., Washington: GPO, 1976, pp. 727–738.

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The fundamental question, however, concerns the future trade balance of the East European countries with the West. If this were to show promise of achieving equilibrium, then both the management and future levels of debt would fall into place. Conversely, if deficits are likely to continue high, the management problem necessarily becomes more serious.

It has been argued that the centrally planned economies will continue to experience hard-currency deficits as long as they maintain this type of economic system. In this view certain features of the system make them "structurally" unable to produce in sufficient quantity goods demanded in Western markets and to market effectively what they could sell. They are unable to generate, use, and diffuse new technology, and even the technology they import is often already outdated. They will permanently be a step behind, and their manufactures simply will not compete. Moreover, they will consistently underestimate their future hard-currency deficits because of various "illusions." [11]

One may hesitate to accept this apparent denial of the basic principle of comparative advantage in international trade, or at least feel that it generalizes from only a few recent years of consecutive large deficits. The analysis does, however, tie in well with the problems Eastern Europe appears to face in different phases of the Western business cycle. When Western economies are growing slowly, they are reluctant to accept imports from the East, and price-cutting (arguably to approach an "equilibrium exchange rate") is seen as dumping. When Western growth accelerates, so does technical progress, and the technology gap widens.

The argument suggests that only decentralizing "economic reforms" will make the system flexible enough to export to the West. I believe that no far-reaching changes of this kind should be expected in the foreseeable future, whatever the economic pressures and our own policies. The Hungarian economic system c. 1971 is about as far as any East European country is likely to go toward a market economy.

On the other hand, before it was hit by sharply adverse changes in its terms of trade, the Hungarian economy *was* significantly improving its hard currency trade performance.[12] Perhaps, therefore, the case is not proven, and limited decentralization and rationalization of the system would suffice. And even without

[11] F. Holzman, "A Theory of the Persistent Convertible Currency Shortages of Centrally Planned Economies," mimeo, 1976.

[12] See R. Portes, "Hungary: Economic Performance, Policy, and Prospects," in *East European Economies Post-Helsinki,* a compendium of papers prepared for the Joint Economic Committee, 95th Cong., 1st Sess., Washington: GPO, 1977.

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systemic change, the substantial increase in Romanian exports to the United States after the Most Favored Nation (MFN) and Generalized System of Preferences tariff treatment were granted (July 1975 and January 1976, respectively) suggests that lowering tariffs might help significantly.

On present evidence, it seems unlikely that other East European countries will go even as far as Hungary. Certainly the 1976–80 Five Year Plans suppose no major institutional changes. They do reflect the generally tighter constraints on economic policy imposed by hard-currency debts and world economic conditions, with somewhat lower output growth rates (except in Romania) and a clear slowdown in the growth of consumption. Yet one may doubt whether the plans go far enough in this direction—or whether they could. For even if, for example, the plans could allow an increase of exports to the West by 80 percent from 1975 to 1980 (assuming the goods could be sold), as one analysis suggests, to achieve a hard-currency trade balance by then would require that imports go up only 13 percent over the same five-year period.[13] But domestic pressures would make it very difficult indeed to reduce consumption growth rates any further, and investment is hard to cut in the short run, while in the longer run it is essential for the desired productivity increases. Now that foreign trade, especially trade with the West, is no longer a marginal activity involving only a small share of output, the planners' room for maneuver is much reduced.

Prospects for the debt thus involve both whether the West would buy substantially more East European goods and whether the East could supply them. In the West, market resistance and pressures for barriers to imports have already become evident over a wide range of products.[14] And in the East there is little evidence so far that the output generated by imported capital and technology has gone into significant increases in hard-currency exports—on the whole, it has tended to remain within the bloc (e.g., petrochemicals, automobiles).

Straightforward arithmetical exercises make it clear that at current rates of gold sales and invisible earnings, and allowing for the

[13] Deutches Institut für Wirtschaftsforschung, *op. cit.*, footnote 4.

[14] For example, the United Kingdom negotiated a comprehensive agreement with all the East European countries to raise the prices of suits they export, after the Department of Trade found evidence of "dumping." *Financial Times*, March 4, 1977. Clothing accounted for over 6 percent of U.K. imports from Eastern Europe in 1975. The history of this case and the full range of methods used by Western countries to restrict imports from Eastern Europe are discussed by K. Taylor, "Import Protection and East-West Trade," in *East European Economies Post-Helsinki, op. cit.*, footnote 12.

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rising interest burden of the debt, even its continuing rapid growth could be avoided only by a remarkable turnaround in East European trade balances. If the flows of 1976 remained unchanged through 1980, the debt would be approaching $90 billion by the end of that year. Alternatively, if imports and invisibles stayed *constant* at 1976 levels, then merely in order for the debt to *level off* by end-1980, the U.S.S.R. would have to increase its hard-currency exports by over 10 percent per annum, Poland by over 20 percent per annum, and the rest of Eastern Europe by about 8 percent per annum; the resulting stable debt levels would be about $27 billion, $20 billion, and $23 billion respectively.[15] Since it seems certain that Eastern Europe's net hard-currency imports of raw materials and fuel will have to rise, any stabilization in the medium term would require *both* sharply reduced imports of Western capital goods and sharply increased exports of manufactures to the West.

V

The economic and foreign trade prospects of the East European countries vary considerably, just as their current debts, so the ability of each to cope with its hard-currency debt problem should be assessed individually. Yet we must recognize that developments in intra-CMEA relationships may affect each differently—and externally, debt servicing difficulties for any one would affect the credit standing of the others. The most important distinction, of course, is between the U.S.S.R. and the rest, and among the smaller countries, Poland stands out.

Recent terms-of-trade changes have substantially benefited the U.S.S.R. and Poland, as fuel and raw material exporters, and harmed the others. For example, Poland's terms of trade with the West rose 23 percent from 1970 to 1975, while Czechoslovakia's deteriorated by 11 percent from 1970 to 1974. Since intra-CMEA prices in general follow world market prices with a lag (now on a five-year moving average), this effect has operated within the bloc as well: thus Hungary experienced a 22 percent drop in its terms of trade on dollar-clearing markets in 1970–75 and a 12 percent drop on ruble-clearing markets.[16] The countries with the proportion-

[15] At a January 1977 meeting of representatives of major banks doing East European business, their mean forecasts for end-1980 were $24 billion, $15 billion, and $21 billion respectively—uniformly *lower* than the outcome of the apparently "optimistic" hypothesis in the text! Either they haven't done their sums properly, or they are implicitly saying that any realistic projected accumulation of the debt could not be financed without excessively straining the present system.

[16] The figures for Poland and Czechoslovakia are from Deutsches Institut für Wirtschaftsforschung, *op. cit.* footnote 4, and for Hungary from Portes, *op. cit.* footnote 12.

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ately largest hard-currency visible trade deficits have been Bulgaria, Poland, and Romania, but these countries have higher surpluses than the others on tourism (and Poland receives substantial emigrants' remittances, while Romania has some gold production).

Although we question the judgment of the Western banking community in these matters, the market's comparative credit ratings are interesting. The picture which emerges from interest rate spreads in the syndicated Eurocurrency loan market, from discount rates on commercial paper, and from discussions in banking circles is fairly consistent. The U.S.S.R. comes at the top; then Hungary, the G.D.R., and Czechoslovakia; then Bulgaria, with Romania and Poland deemed the poorest risks. Bulgaria would be thought at least as weak as Poland, but its extreme closeness to and dependence on the U.S.S.R. lead the market to believe that if the U.S.S.R. will support any country in financial trouble, Bulgaria is the prime candidate. Indeed, there is a widespread "assumption among lenders that Moscow would not allow any COMECON member to default or even reschedule, for economic, political, strategic and image reasons...."[17] This view has strongly influenced market interest rates, keeping them much closer together than the differences in economic circumstances between countries would apparently justify.

Bulgaria and *Romania* are the least developed and fastest growing East European countries. In the 1976–80 plans, the former projects net material product growth at 8 percent per annum, the latter at over 10 percent per annum. But Romania has substantial natural resources, and ever since its declaration of (limited) independence from the U.S.S.R. in the early 1960s, imports of machinery from the West have played a considerable role in its program of rapid industrialization. The share of its trade outside CMEA has been higher throughout the period than that of its partners, and the planning of this trade and its strategy have shown considerable foresight. There is some evidence of this in Romania's ability to cut imports from the West in 1975,[18] while they continued to rise in all other East European countries except Hungary. Moreover, the ambitiousness of Romania's plans leaves room for some deceleration if necessary; its debt/export ratio is comparatively modest (although amortization on the earlier export credits from the West must now be running fairly high, and with it the debt service ratio);

[17] *Institutional Investor*, July 1976, p. 48.

[18] Romania's export credit obligations were virtually unchanged from end-March 1973 to end-1975, indicating a sharp reduction in machinery imports from the West, and its net Eurocurrency liabilities (almost all of which are short-term) actually fell from end-1974 to end-September 1976; effectively, its entire debt increase in 1975 came in loans from the IMF and the World Bank.

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and its internal political situation is well controlled. On the other hand, Romania is the least likely to receive Soviet assistance should it encounter financial problems; moreover, the disastrous earthquake of March 1977 could reduce growth.

Bulgaria, by contrast, seems to have accumulated its very large debts almost haphazardly. Its hard-currency debt service ratio must by now be remarkably high. One can only conjecture that it intends to borrow as long and as much as it can to finance debt service and continued imports from the West, and to start worrying only if and when lenders do.[19] There is certainly no evidence that it will or could mount any major hard-currency export drive.

The *G.D.R.*'s large debt would surely cause more concern among lenders if its citizens were not Germans. The country's reputation for sober, steady growth and production-mindedness is in fact not unjustified, and the special relationship with the F.R.G. has economic advantages, not least the interest-free "swing" credit facility for intra-German trade (now well over $1 billion). But demonstration effects in consumption are strongest here, too; Helsinki has had some effect, and there are recent signs of domestic political difficulties. Thus the economic pressures of worsening terms of trade and labor shortages leave the G.D.R. little room for maneuver in the face of a dangerously high debt/export ratio. The G.D.R. has also had to contribute increasing amounts of investment into Soviet raw material extraction, in return for future supplies. (Czechoslovakia and Hungary have also faced especially heavy demands on this account.)

Like Romania, *Hungary* has been borrowing to finance hard-currency imports for many years. But although its publicized Euromarket ventures have usually been identified with plant and equipment for specified projects, the borrowing has in fact been primarily for general balance-of-payments support. Hungary is very poor in raw materials and imports substantial quantities from the West; its agricultural exports have suffered from the barriers erected by the EEC's Common Agricultural Policy; and it has always had great difficulty in exporting manufactures for hard currency. Thus Hungary has not imported very large amounts of Western machinery. Since the introduction of the "New Economic Mechanism" in 1968, it has instead favored "industrial cooperation" agreements with Western firms, as a means of getting both new technology and guaranteed hard-currency export markets.

[19] In November 1976, a Bulgarian borrowing of $100 m. was "heavily oversubscribed." *East-West Markets*, November 15, 1976.

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The economic reforms appear to have brought some improvement in the underlying trend of the hard-currency balance of trade, but this was swamped by the deterioration of Hungary's terms of trade in 1974–75. The additional debt service burden accumulated since 1974 will now make it much harder to get back to a sustainable long-run equilibrium. But the planners at least have the advantage of dealing with a population fairly well satisfied with political, cultural and economic developments over the past decade and appreciative of their relative advantages. The eventual departure of Janos Kadar as First Secretary of the Hungarian Socialist Workers' Party, or any enforced turn away from the West into closer CMEA integration, however, might mean that efforts for long-run economic stabilization would encounter political resistance.

Czechoslovakia's debt to the West is not a cause for serious concern at present. The economy is not especially dynamic, but the planners have followed a correspondingly cautious foreign economic policy. It is nevertheless interesting to reflect that while in 1968 the proposal that Czechoslovakia should seek a $500 million Western loan was a provocation to the Soviet Union, the increase in Czechoslovakia's net hard-currency debt in 1975 was almost exactly this amount. That loan was to be used for Western machinery to re-equip Czechoslovakian industry, but the 1975 borrowing was to cover the increased cost of raw materials and fuel.

The outstanding problematical case is of course *Poland.* Lenders belatedly realized this when the government's attempt to raise food prices in June 1976 miscarried, as urban workers again showed the strength of resistance which in similar circumstances forced the change of regime in December 1970. That a government which had originally come to power in this way could itself have acted so rashly indicates not merely political insensitivity, but more importantly, the seriousness of the underlying economic problems which motivated the proposed price increases. The economic strategy chosen in 1971–72 is clearly compromised, and with it Poland's ability to avert debt rescheduling at the end of the decade.

This strategy was a "dash for growth" based on heavy investment with Western equipment in both raw material exploitation (copper, sulphur, coal) and manufacturing, together with rapid growth of real wages (seven percent per annum) as an incentive to increase productivity. But despite the improvement in Poland's terms of trade, the planners were unable to maintain macroeconomic control, and the pressure on the economy proved excessive. At fixed consumer prices for food, with per capita money incomes growing at 12 percent per annum, consumption rose rapidly, and agricul-

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tural exports suffered; of a 32-million-ton increase in coal output from 1970 to 1975, only half went into increasing exports; and the hard-currency debt soared. The 1976–80 plan projects no growth in investment from the 1975 level and a three percent per annum growth in real wages, but both start on an excessively high base. Yet the scope for any further shift into exports is limited on both the supply and demand sides. The riots demonstrated the difficulty of restraining food consumption, and the urban housing shortage is probably the worst in Eastern Europe (so the planners were forced to allow 8 percent per annum growth in housing investment to 1980).

Poland's plan projects an 80 percent increase in total export volume from 1975 to 1980, with no increase in imports, but these targets seem highly implausible. Several of its main manufacturing exports to the West are "import sensitive" (clothing, furniture), and expansion of other manufactured exports cannot amount to much in the medium term, so the prospects to 1980 depend heavily on coal, copper, and sulphur. Domestic coal rationing was introduced in November 1976, but only a very large increase in the price of copper would offer any real hope that Poland might be able to meet its hard-currency debt repayment schedule at the end of the decade.

The *U.S.S.R.*'s debt is also now considerable, but so are Soviet fuel and raw material resources, gold production and reserves (estimated at 3,250 tons and valued at $13 billion at end-1976[20]), and internal political control. The last is evidenced by the shift away from consumption growth back to heavy industry in the Tenth Five-Year Plan, belying those who saw in the 1971–75 Plan an irreversible shift of priorities toward consumers. Some of the existing debt derives from the harvest failures of 1972 and 1975—yet predictions that these will be chronic have been followed by a record 1976 crop. Soviet hard-currency export earnings in the medium term will come primarily from oil, gas, timber, cotton, coal, copper, and armaments. I believe the U.S.S.R. will continue to borrow, as long as lenders allow, to finance Western machinery imports, and its capacity to service its debt cannot yet be doubted. The issue here is rather the leverage it derives from doubts about its *will* to do so and about its desire to maintain its hard-currency imports, the reduction of which would cause serious problems for some Western capital goods exporters, especially in West Germany.

[20] *East-West Markets*, January 10, 1977.

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VI

The common arguments which initially made lenders eager to accept East European business, and which they still use to bolster the market's confidence, appear extremely dubious in the light of the preceding discussion. The excellent repayment record of East European countries before the recent explosion of their debts can be viewed skeptically as merely a conscious, careful preparation for a major foray into Western credit markets—or at least as irrelevant to the totally transformed current situation.

Moreover, the fact that one is lending to an entire country, whose planners supposedly can at any time implement the resource shifts necessary to meet foreign obligations, is much less reassuring now that there is ample evidence of the severity of the constraints the planners face (and their own inability to foresee this, as in Poland).[21] However, it is at least true that since their currencies are not convertible, the East European countries are invulnerable to foreign exchange reserve loss through speculation on their currencies and to involuntary exchange-rate changes.

And the technical management of the debt is of course much easier in a centrally planned economy, with completely centralized control over foreign exchange transactions and capital flows (disregarding some black market currency transactions). But even this has its peculiar problems. From what we can infer about the overall maturity structure from the pattern of borrowing, the recent heavy volume of five- to seven-year Euromarket loans will mature around 1980, overlapping closely with much of the somewhat earlier but longer-dated export credits. This would come at the end of a five-year plan period, when it is especially difficult for East European planners to cut down on investment and capital goods imports. It would be a bad time to encounter refinancing problems.

Next, there is the contention that no East European country could afford to miss any repayments, lest it thereby lose access to further Western credits. This appears weaker when one considers the contrary experience of various LDCs. Exporters want to continue exporting, and neither banks nor governments want to force default. If the banks can get a country to keep up interest payments provided they continuously "roll over" or even increase (cf. Zaïre) the principal, all they lose in the short run is the possible opportunity cost of being unable to redeploy the funds more profitably elsewhere, and they keep alive the possibility of repay-

[21] Yet D. Lascelles, in the *Financial Times*, February 23, 1977, reports "a growing feeling [in the Euromarket] that normal criteria of debt and debt service need not necessarily apply to tightly controlled and centrally planned economies."

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ment in the long run. There is no collateral on which they can foreclose. What might happen if the banks themselves faced a liquidity problem is of course a different story.

Possibly a stronger argument is that the U.S.S.R. would bail out any East European country in danger of sinking financially.[22] It did step in to help Poland and Hungary after 1956, and again in Poland in 1971. But the numbers are so much larger now. In 1971, Poland got a $100-million loan for consumer goods imports, repayable in hard currency—this is now about two months' worth of interest payments on Poland's current debt (in inflated dollars, say three months)! And once the precedent was established for one country, others would queue up, unless the terms were seen to be onerous.

And if it is unlikely that additional credit would be completely cut off to a country forced to reschedule, *a fortiori* how plausible is it that the U.S.S.R. would fear its own access to credit might suffer seriously should another CMEA country fail to meet its commitments?[23] The U.S.S.R. would presumably be sensitive to the political "loss of face" for the bloc as a whole if any socialist country were to signal economic weakness by rescheduling its debt. Yet, in the last analysis, the Soviet leaders might not be overly upset to see Poland, Hungary, Romania, or the G.D.R. forced to cut back drastically its trade with the West. To have external constraints curtail their independence and exposure to Western influence might suit the U.S.S.R. better than having to do the job itself.

It is also maintained that although we do not know precisely what the East European debt service ratios are, they cannot be as high as those of, say, Brazil and Mexico, which have not yet had to reschedule. Moreover, the East European debt figures include all debt, private and public, and therefore look misleadingly high in relation to many LDCs, for which some forms of commercial debt may not be reported. But the comparison with Brazil, a country of immense resources and great dynamism, or Mexico, whose currently estimated oil reserves are more than one-third those of the United States, is perhaps unhelpful—especially since several LDCs with much lower debt service ratios *have* had to reschedule.[24] The only help here would be to match detailed debt service schedules

[22] The market can go to quite absurd lengths in its tendency to view the East European countries as joint borrowers, as for example in the rumors that the $200-million Czechoslovakian borrowing in 1976 was really taken on behalf of the U.S.S.R.

[23] The banks would undoubtedly charge it higher interest rates, but judging by recent experience with countries which have themselves had to reschedule, the increase in "spread" would be relatively small.

[24] By end-1975, Poland's debt exceeded the total (public plus private sector) debt of Argentina ($7.3 billion), Chile ($5.2 billion) and Peru ($4.5 billion), for example. *World Financial Markets*, September 1976.

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over the next several years against equally detailed projections of hard-currency exports and imports. We simply do not have such data.

Surely 1974–76 has been an exceptional period, it is said. Harvests have been especially bad (in the U.S.S.R. in 1975 and in Poland throughout the period, among others) and the terms of trade have been especially unfavorable. It was difficult to reduce hard-currency imports in 1975, the last year of a five-year plan, and imports in 1976 reflect lags in capital goods deliveries, but cuts are undoubtedly coming.

Yet agricultural output over the whole period 1971–75 was below plan only in the U.S.S.R. and Romania. The terms of trade of the U.S.S.R. and Poland have actually improved considerably, and who in any case would predict with confidence that the adverse shift for the others will be reversed? Poland plans a tremendous export drive with little expansion of imports, but its realism is suspect; the more reliable Hungarians, for example, project a 60 percent rise in the volume of exports to non-socialist countries and a 40 percent rise in imports from them over this five-year plan, which would leave the hard-currency trade deficit in 1980 virtually unchanged from the 1975 level, in absolute terms. The OECD has projected a 1977 deficit of the same order of magnitude as the $10 billion in 1976,[25] and as long as it remains possible to finance deficits of this size, it is unlikely that the trade gap will close rapidly over the next few years.

This suggests the demand for new credits will in fact continue. Will lenders supply them? Western governments show no sign whatsoever so far of cutting back the volume of their export credit guarantee support. And neither the events in Poland since June 1976 nor increasing public discussion of the East European debts have had any apparent effect on Euromarket bank lending. Total syndicated Eurocurrency credits to Eastern Europe were slightly up in 1976 over 1975 (from $2.3 billion to $2.4 billion). Meanwhile, interest rate spreads were generally falling during the year, as they were for the rest of the market.[26]

In the summer of 1976, a survey of the market observed: "Western bankers . . . in some cases seem to be tripping over each other in the rush to provide [money]—at rates and conditions highly

[25] *OECD Outlook*, December 1976.

[26] In December 1976, Hungary obtained a spread of 1.125 percent over LIBOR on a $150 million 5-year loan, terms as good as those given Venezuela (which has oil and little debt).

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favorable to the borrowers . . . one keeps hearing that these borrowers must fall into line and provide potential lenders much more information. Yet for all the caveats. . . . there remains a distinct atmosphere of euphoria surrounding this business of lending to the Communists."[27] By early 1977, the brief concern caused by Poland's problems had apparently passed, relieved by the slight reduction in 1976 of Eastern Europe's hard-currency trade deficit and "a degree of familiarity and trust" between the Western banking community and COMECON.[28]

The banks occasionally congratulate themselves on obtaining, for a placing memorandum, more information than previously about the borrower's balance of payments and overall economic situation. But they still have much less information on debt structure than they would require of any LDC.[29] They also have sought to tie loans to the financing of particular projects. But the project-lending approach ignores the internal transferability of resources. Especially in a centrally planned economy, there can be no effective distinction between "project" and "program" lending. There is only one borrower, only one project: the plan. To believe otherwise betrays a basic misunderstanding of how such economies operate.

Finally, it is suggested that industrial cooperation agreements and product repayment (buyback) arrangements ensure that exportable output really will be available to pay off loans. This too, however, is a "project loan" approach—and its converse would be that a substantial part of the most saleable output these economies will produce is already mortgaged, for practical purposes, to meet high-priority obligations. If this represents as much as 20 percent of the loans outstanding, as some estimates suggest, what will be used to repay the remainder, in particular the unsecured Eurocurrency loans? As for true East-West industrial cooperation, its ex-

[27] *Institutional Investor*, July 1976, p. 44.

[28] *Financial Times*, February 23, 1977.

[29] Colorful examples abound: (1) When asked whether he could give "a more exact figure" for Poland's debt than between $6 and $9 billion, the President of the Foreign Trade Bank replied, "I cannot. Figures of indebtedness are not published; nor are figures of reserves." *Euromoney*, Jan. 1977, p. 33. (2) A Hungarian central banker maintains, "We give so much information that our partners [the banks] are always satisfied." *Ibid.*, p. 14. But this tells us more about the banks than about Hungary's foreign payments position. We have no hard-currency balance of payments, a total for "international reserves" but no breakdown, and no information on the maturity structure or service payments for either export credits or the 75 percent of Hungary's Eurocurrency credits which are not publicly announced. (3) The Director of the Soviet Foreign Trade Bank recently said, "The debt figure [for the U.S.S.R.] you mention of $13 billion is too high, exorbitantly high," *Euromoney*, March 1977, p. 50, but he provided no alternative figures. However, an unpublished estimate by Moscow Narodny Bank (London) in February 1977 shows even higher debt figures for the U.S.S.R. than those suggested in Table I above—"net debt" at end-1975 of $10.7 billion, increasing by a further $2.8 billion to end-September 1976.

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pansion to any substantial scale faces severe institutional constraints.

In sum, East European hard-currency deficits must be met by some combination of adjustment and financing. The adjustment in trade required merely to stabilize the debt in the medium term seems so great as to be unlikely, except perhaps for the U.S.S.R. It would require some combination of an improvement in Eastern Europe's terms of trade, reduction in the volume of their hard-currency imports, and increase in the volume of their hard-currency exports. A significant reduction in the volume of imports would be painful and perhaps politically dangerous in the short run (if in raw materials, industrial consumer goods, or food) or economically harmful in the long run (if in machinery and equipment). On the export side, the West might be willing to take more raw materials, if they were available, but taking more manufactures would require conscious policy initiatives by Western governments against strong domestic resistance. Even then, it is not clear how much Eastern Europe could expand its supply of manufactured goods saleable at any price in the West.

The latest International Economic Report of the President (1977) sums up the situation as follows:

> . . . It is evident that continuing expansion of debt cannot indefinitely finance a continuous increase in Communist country imports from the West. At some point, Communist country exports to the West must increase so significantly as to achieve greater balance in East-West trade. . . .
> [But] although some success in expanding exports is likely, it seems doubtful that increases achieved will be sufficient to close the trade gap with the West in the next few years. (p. 65)

"At some point," "doubtful . . . in the next few years"—clearly the Report is suggesting that *further finance* will be needed. So far we can observe no constraints on the expansion of Euromarket finance. Yet without institutional developments, can we really suppose that sufficient credit will be forthcoming to finance an increase of the debt by, say, $25–$40 billion to end-1980? Would this be possible without substantial government involvement in guaranteeing commercial bank loans and in direct export financing, and would it be prudent without some international coordination, perhaps the involvement of international organizations? But could Western governments or international organizations deal with financing East European deficits in the same framework as with LDC deficits? And would overt policy initiatives harm market confidence? We cannot simply continue to ignore the debt, suppos-

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ing that it will go away as quietly and rapidly as it has accumulated. We have clearly left it to the bankers for too long already.

It is unlikely that any East European country will find it impossible to borrow more in the immediate future. But unless some progress is made in reducing the overall reliance on commercial banks for financing balance-of-payments deficits, limits may be approached fairly soon. As was remarked in *World Financial Markets* last October, there clearly is some "danger that the current buildup of international bank credit may be followed in the next two or three years by a sharp contraction, whether because of a revival of domestic loan demand in major industrial countries, or an undue response to creditworthiness considerations." Such developments might force debt rescheduling exercises not only for a number of LDCs, but also for one or more East European countries.[30]

The roles of creditor governments, banks, and the IMF in past debt rescheduling operations have been complex. As Andrew Shonfield put it, the overriding consideration has been the "desire to prevent poor nations facing a crisis of external debt from dropping out of the international system altogether. . . . It is the symbolic effect of debt repudiation which is most feared. . . . Creditors do not want the conventions governing the international borrowing system to be too blatantly disturbed."[31] Creditors expect a domino effect if they force one country into default, and they are in a fundamentally weak position, because the sanctions available to them are limited. The threat of an embargo is unconvincing, because debtors know that minor creditors, with little to lose, will be happy to resume selling (or lending) to them.

Thus, whether the major creditors are government export credit agencies or private banks, they have usually been willing to reschedule on relatively accommodating terms provided the IMF was called in, prescribed a "stabilization plan," and supervised its implementation. This sort of arrangement is no panacea, though—the IMF tends to impose severely deflationary policies, which debtor governments may find politically intolerable; and, unguaranteed bank credits (specifically, Eurocurrency loans) come at the end of the queue, while there are obvious limits on how far the IMF can act on behalf of private interests (cf. Argentina, Zaïre). On the other hand, when banks themselves tried to supervise

[30] North Korea did default (or reschedule—its intentions are still unclear) in early 1976, but its experience has no more relation to Eastern Europe than that of any other debtor country.

[31] A. Shonfield, in S. Strange, *International Monetary Relations*, Vol. 2 of *International Economic Relations of the Western World 1958–71*, ed. A. Shonfield, London: Oxford University Press for the Royal Institute of International Affairs, 1976, pp. 12–13.

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stabilization policies in Peru, both they and the government found the situation politically untenable.

If the problems of recycling do become more severe, we might see a greater role developing for the IMF, or for governments or central banks through the EEC, OECD, or BIS, but how would this apply to Eastern Europe? And if the debt of an East European country were to reach unmanageable proportions, how can we envisage the complicated politics of debt working itself out? What leverage would Western creditors have over East European debtors, and what broader problems would be raised by any attempt to exert such leverage? Only Romania actually belongs to the IMF (even so, its balance-of-payments statistics are not published). Can we envisage Fund missions to Warsaw, Budapest, and Sofia, prescribing stabilization plans? And where would the Euromarket banks be then? Again, the context is clearly different for Eastern Europe than for the LDCs.

VII

The East European debt to the West has created a new dimension of East-West interdependence. The policy of détente was of course designed to create interdependence, a "web of mutual interaction" which would constrain both sides and have both economic and political advantages. The straightforward economic advantage was the potential gains from increased trade. The trade would also carry technology, and Eastern Europe would become dependent on both—at the cost to the West of helping them to grow faster, and possibly reducing internal pressures on them to divert resources from military uses. The dependence could not easily be broken because technology transfer is a long-term process, and it would create a framework for "penetration" and "linkage."

Dependence on trade with the West would bring political and cultural influence, and both political and economic stimuli for decentralizing "economic reforms," moving perhaps toward "convergence" of the two systems. More foreign trade itself, as well as diffusion of the imported technology, would require more flexibility in the system, and consumerism and further industrialization would lead to political relaxation.

"Linkage," on the other hand, referred in this context to the explicit, step-by-step use of this economic dependence as a bargaining counter for political concessions. It was always recognized, of course, that the outcome would not merely be the dependence of East on West, but interdependence. The main focus here,

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however, was potential Western dependence on East European raw material supplies. There was no detailed analysis of how a growing Eastern debt would affect either side.

Many of the issues associated with détente and East-West interdependence are reflected in the existing debt, the forces which generated it, and those now tending to increase it further. No matter how skeptical our current evaluation of the wider effects of economic interdependence, the debt itself now has a role of its own, however, separate from these forces. Economists distinguish between stocks and flows: although stocks are created by flows over time, once in existence stocks affect behavior independently. The current stock of debt is a striking contrast with the position of a decade ago, and one cannot help but believe that Western policymakers have regarded the process which generated it as easily reversible. But it is not so easy to reverse flows, and it is even harder, slower and more costly to liquidate stocks.

It is to be hoped that the process of gaining control of the debt, on both sides, will be more carefully monitored than its original development. It may be that the problem was simply lost from sight in the aftermath of the oil price increase, when the major concerns became the broader problems of recycling, the solvency of LDCs and some advanced countries (especially Italy and the United Kingdom), and the overall stability of international capital markets and the international monetary system. In any event its relative importance has plainly increased, and it is important to consider various aspects of the dependence it creates, for each side upon the other.

For the East European countries, policies toward the debt are constrained by their perceived dependence on imports from the West of commodities and technology. Given this, their debt levels and service obligations limit their feasible trade and production choices. How dependent they actually are on technology imports is a matter of considerable Western debate. Some argue that the measured payoff to such imports is so high that they have or will become virtually indispensable to Eastern Europe. Others suggest that even for oil and gas development in the U.S.S.R., for example, Western help is not essential (although exploitation will be somewhat slower without Western credits), and that the Soviet Union will never allow itself to become dependent on Western help. A third view (possibly consistent with either of the others) is that if a growth strategy based on imported technology succeeds and the East European countries begin to diffuse new technology and generate their own, they will become able to do without

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further imports; whereas if it fails, they will be unable to repay the debt.

The debt may also act as a centripetal force in CMEA. Paradoxically, if the pressures of meeting debt service obligations require East European countries to cut back on all but essential Western imports, they may thus motivate greater reliance on each other (compare the "inward" turning of West European payment union members faced by the "dollar shortage" of the early postwar period). This may also push the smaller countries into more dependence on the U.S.S.R. I conclude that centripetal forces in CMEA will be very strong indeed over the next decade, partly because the debt will limit hard-currency import capacity. Whereas some saw East-West trade as a means of separating the smaller East European countries from the U.S.S.R., the accumulation of debt (or alternatively, Western unwillingness to buy enough of Eastern Europe's exports) has now made this unlikely. Indeed, our lending may have indirectly financed investment by the other countries in Soviet raw material extraction.

Next, the debt acts as a mechanism for transmission of cyclical fluctuations from West to East. Both interest rates payable (on a substantial part of existing debt, as well as new loans) and the availability of refinancing credits will be affected by business conditions in Western countries. East European import capacities will be more tightly constrained by export demand. And by increasing Eastern Europe's vulnerability, the debt makes any move toward convertibility of their currencies (or of the transferable ruble) even more unlikely than it would otherwise have been.

Finally, Eastern Europe's debt repayment obligations will, if honored, severely constrain the geographical pattern of their exports of raw materials and higher-quality industrial goods over many years to come. For these are the goods capable of earning hard currency, and substantial quantities will have to be sent to non-socialist markets.

For the West, the creditor's fear of default is the chief source of dependence through debt. This is most obvious for the private banks which have made uninsured loans. They have "long since passed the point at which they could have cut their losses" and are "likely to make every effort to continue to lend in order to protect the loans they have previously made."[32] This in turn creates some leverage for East European debtors with Western policymakers, whom the banks will seek to influence, and who in any case must be

[32] M. Campbell and D. Lascelles, *Financial Times*, July 29, 1976.

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concerned with the effects on international financial markets of any large-scale East European default. There is indeed the danger that governments might go very far in supporting private sector interests: one commentator now highly placed has predicted that "...the U.S. government will be called upon to negotiate, to guarantee, and, to some extent, to protect the various arrangements that have been contrived even by private business."[33]

What governmental role would this imply in a rescheduling operation, where heretofore governments generally have not supported the interests of their banks? Governments may face the policy choice between rescuing overexposed banks and giving direct loan assistance to debtor countries. Banking regulatory authorities would favor the former, and they would limit themselves to protecting depositors, so that the banks would actually take some losses on their bad loans. Governments might see foreign policy advantages in the latter (compare American treatment of Romania and PL 480 assistance to Poland), and the big banks would lobby for it. But domestic political counter-pressures would surely be strong—"Poland but not New York City?"

The debt itself has seriously weakened governmental control over Western lending policy, given the motives of the Euromarket creditor banks and the great difficulty of enforcing any controls over the Euromarket. Whereas government policies concerning export credit guarantees and direct lending can in principle be controlled, if the Euromarket banks feel they must in consequence lend more in order to safeguard their existing loans, it will be very difficult indeed to stop them.

Finally, a different form of dependence will emerge in trade negotiations. The creditor is in the embarrassing position of appearing to hinder the debtor in his efforts to repay, should the former wish to restrict imports from the latter. This was of course one aspect of the "transfer problem" in the interwar period.

There are strong political and economic forces against Western coordination of policies toward the interdependence created by the debt, and the institutional obstacles are also formidable. The competitive desires for capital goods markets, raw material supplies, and political influence impede the development of any common trade or credit policies, and even the simple exchange of information. A year ago, Henry Kissinger warned that Eastern Europe might "play off the industrial democracies against each other."[34] But their intervention is hardly necessary. France, for example,

[33] Z. Brzezinski, "America in a Hostile World," *Foreign Policy*, Summer 1976, p. 80.
[34] Statement to OECD, June 21, 1976.

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observing that the Congress has already limited Eximbank support for exports to Eastern Europe, sees a "sour grapes" reaction in any American initiative which might be interpreted as seeking a more restrictive overall Western policy. At an OECD meeting in October 1976 which discussed the debt, France simply denied there was any problem, implying that the exercise was part of a scheme to take some of its capital goods export markets. And interests differ: West Germany, although certainly concerned to maintain its capital goods exports to the East, has also consistently sought to extract political concessions as a quid pro quo.

Because of just such differences, the Berne Convention on maximum maturities for export credits (which covered loans to Eastern Europe), adopted in the late 1950s by most of the major exporters, had broken down completely by the mid-1960s. In June 1976, however, the seven largest exporting countries announced a one-year trial period for a "gentlemen's agreement" setting basic minimum terms for loans to all countries, including Eastern Europe; but by December 1976, the United Kingdom announced a major prospective deal with Poland offering "very favourable financial terms" in a framework which appears effectively to avoid the guidelines.[35]

As I have already stressed, the absence of information on the maturity and interest rate structures of East European countries' debts has hindered the development of government and private sector policies toward individual countries. The Berne Union (International Union of Credit and Investment Insurers) has just begun to seek information on maturity structures from its members, as has the OECD Export Credit Group, and the BIS has similarly begun to work through central banks in major countries to get their commercial banks to give a maturity breakdown of positions with Eastern Europe. But there is some (unknown) degree of overlap of coverage, which will be very difficult to sort out; and each set of data will inevitably be incomplete.

Would lenders not be far better off if they were to require this information from East European borrowers themselves? This ought to be enforceable by agreement among the major Euromarket banks (possibly under instructions from their regulatory authorities, guided by the BIS) and the Berne Union members. It is not punitive or discriminatory, since it would be demanding no more than any LDC gives to the World Bank/IMF. "Basket Two" of the Helsinki Agreement stipulates freer flows of economic and commercial information, and this is just the sort of thing that

[35] *Times* (London), December 17, 1976.

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socialist planners ought to expect capitalist lenders to want to know. It would certainly become necessary in any eventual rescheduling operation.

But this is a fairly trivial policy recommendation, remarkable only because it was not implemented long ago. The question of what to do with the information if and when it becomes available is a different matter. Given the existing data, the preceding analysis suggests there is a significant probability that at least Poland, and perhaps other East European countries, will have to reschedule their hard-currency debts around 1980. If business conditions and import demand do pick up in the West, then Euromarket lending will become much tighter—if not, East European hard-currency exports to the West on the scale necessary to keep the debt manageable would encounter stiff market resistance, while an enforced drastic cutback of their imports from the West would seriously hurt both sides.

The implications are unpleasant. IMF surveillance over a stabilization program it might prescribe for Poland is difficult to envisage. But then how *would* rescheduling be supervised? That an East European debtor would be terribly concerned about the unsecured loans of Euromarket banks if it were forced to reschedule seems unlikely, unless Western governments were to intervene on behalf of their banks, which seems undesirable; but the consequences of default for the Euromarket would be grave.

If better data do confirm the picture outlined here, there would appear to be just two alternative policies for avoiding a nasty turn in our creditor relationship with Eastern Europe. One would be to accept a fairly rapid growth of the debt and to coordinate its financing much more actively. This might be done through international organizations, i.e., direct intervention into the recycling process. Or with a sensitive market problem of this kind, private sector coordination might be less hazardous than open governmental activity—the Euromarket banks themselves could cooperate directly, not only in sharing information, but also in setting aggregate country lending limits (as in oil allocations by the companies in 1973–74). Whether the banks would be capable of taking such an initiative *before* serious trouble arises, and whether Western governments would like the outcome, are open questions (so too is whether American international antitrust policy would permit such collaboration).

Alternatively, the West could adopt a policy for keeping the debt down by operating on trade flows. This might entail an agreement by major surplus countries to buy, in the framework of inter-

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country negotiations, much more of the manufactured goods which Eastern Europe has so far been unable to sell in the West; or to finance the export of these goods to selected LDCs.

In any case, a range of choice will arise for the West between its economic relations with Eastern Europe and with the LDCs—the two areas will to some extent compete for our markets and our financial support. There is of course a fourth actor, OPEC, and Eastern Europe could limit its hard-currency debt to the West (probably at the expense of the non-oil LDCs) by direct borrowing from OPEC and direct export sales to OPEC. There are already significant examples (e.g., partial financing of the Adria pipeline by Kuwait), but the amounts are so far relatively small. Substantial increases in such government-to-government lending would give yet a further geopolitical dimension to the problem of East European debt.

VIII

To recapitulate, we have identified some issues associated with the debt which require further analysis to provide necessary background for our overall policies toward Eastern Europe; some on which contingency planning ought to begin; and some on which action can and should be taken now. In the first category are the potential impact of the debt in reinforcing centripetal tendencies in CMEA in the medium term and the likely effects on East European economies and internal political conditions of financing problems, if they do arise. Here also, we need wide-ranging study of alternative future roles for Eastern Europe in an international monetary system from which it is no longer fully isolated. Policy planners must consider the implications of relating international agencies like the IMF to the broader economic and political problems of East-West interaction.

In the second category, prudent foresight suggests that we should begin now to consider how we would respond to any East European request for debt relief which might follow the negotiation of such arrangements for the LDCs. Indeed, this possibility should be taken into account in formulating our attitudes toward the LDCs' requests. Western central banks, bank regulatory authorities, and finance ministries should also explore various lines of approach to rescheduling the debts of an East European country or coping with the consequences of a default. Should such an eventuality arise, we may have less advance warning than for countries on which we have more debt servicing data.

Immediate action can be taken in several areas. First, on infor-

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mation gathering and sharing, current efforts in the lending countries should be supplemented by stronger and more coordinated attempts to require more from East European borrowers, under the rubric of Basket Two of the Helsinki Agreement. Second, attempts to coordinate export credit policies toward Eastern Europe should be reinforced, focusing perhaps on the EEC as a first step, if suspicion of American motives undercuts OECD activities along this line.

Third, the major Western industrial countries must be brought to realize that Eastern Europe will only be able to cope with its hard-currency debt by selling more manufactured goods in the West. Pressures for more protection must be resisted and, at a minimum, the remaining trade discrimination against Eastern Europe should be eliminated. (Officials responsible for implementing anti-dumping legislation should be better instructed in the ambiguities of pricing and "costs" in economies without market prices or meaningful exchange rates for their currencies.) Fourth, whether or not overall controls over the volume of Euromarket lending are deemed necessary, surely we must find some way of setting aggregate limits for East European countries which are related to their economic capabilities and governmental policies.

Finally, we should seek to bring the East European countries themselves as active participants into the current discussions of how the international monetary system will handle the increasing volume of debt. The interdependence created by the East European debt to the West requires cooperative as well as unilateral action.

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Karl E. Birnbaum

HUMAN RIGHTS AND EAST-WEST RELATIONS

The need to respect human rights has lately become the focus of public attention and debate. Such a development is clearly a reflection of rising popular expectations which in some cases have led to a growing tension between governments and the governed. We can discern a worldwide trend to assert individual and collective aspirations and to bring about changes in governmental processes at all levels in order to make them more responsive to these aspirations. This trend shows up in many forms—from movements of national independence to devolution and demands for worker codetermination. In the United States and Western Europe a growing interest in "the human dimension" of world politics is seen by many as a natural and healthy reaction to an overemphasis on great power diplomacy, elitist cynicism, and to excessive secretiveness during the recent past.

This trend also has significant implications for East-West relations. In the compass of this brief essay, our analysis will be limited to two developments which are liable to affect fundamental premises of Western policies toward the Warsaw Pact countries: (1) the more assertive mood of human rights movements in the Soviet Union and Eastern Europe; and (2) the articulate stand adopted by the new Administration in Washington on the issue of human rights, implying a distinct departure from the position of the preceding Administration.

II

The advocacy of respect for human rights and fundamental freedoms in the widest sense has a double implication. First and foremost, it implies an insistence on effective guarantees to safeguard the position of *the individual citizen* in the society to which he belongs and particularly to protect him against infringement of basic civil rights and liberties, such as freedom of expression,

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freedom of assembly and freedom of movement—liberties which are inscribed in practically all modern constitutions, including those of the Soviet Union and the East European countries. Second, to champion human rights involves supporting a long-established principle of international relations, reconfirmed in the Final Act of the Conference on Security and Cooperation in Europe (CSCE); this so-called Helsinki agreement recognizes the *collective rights of peoples* to self-determination and equal status in the international community.

Any consideration of the political significance of the human rights movements in the Soviet Union and the East European countries should take both these aspects into account. And it should start by underlining the obvious differences in these countries both with regard to the character of the movements themselves—indeed the use of the term "movement" may suggest a generalization that is neither intended nor justified—and the general political context. Four countries would seem to be primarily affected by the new assertiveness of dissenters and advocates of human rights—the Soviet Union, Poland, Czechoslovakia, and the German Democratic Republic (G.D.R.).

In the Soviet Union, the very fact that dissenters and human rights groups, like those monitoring the implementation of the Final Act of the CSCE, are at all able to express their views and to pursue their activities—even though under exceedingly difficult, often hazardous conditions—is in itself a sign of the changes that have occurred in Soviet society during the last two decades. While these signs of resilience, alertness, and moral courage may engender hope for a long-term evolutionary process implying some measure of democratization, the *immediate* political relevance of this rather fragmented "movement" seems to have been very limited. The authorities clearly perceive it as a potential challenge—and as such certainly to be taken seriously—but hardly as a political force within the country. In their view, the current political significance of the movement derives primarily from its actual or potential function as a bridgehead for the spread of "subversive" ideas. Hence the official response has mainly consisted of physical isolation, intimidation, or expulsion of the most active individuals, accompanied by efforts to immunize the public against their messages through concerted campaigns of vilification against these allegedly "criminal elements" and "foreign agents."

The situations in Poland and Czechoslovakia are distinctly different. In both countries, but particularly in Poland, the activities of human rights groups must be seen against the background of

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acute economic difficulties reflected in inflationary tendencies, increasing indebtedness to the West, and recurring shortfalls in agricultural production. While economic hardship has always been the breeding ground of political protest and opposition, this is particularly true of Poland, Czechoslovakia, and the G.D.R. where the rule of governing elites is not based on popular consent and where distinct constraints inhibit recourse to a policy of national self-assertion as a means to mobilize popular support. Yet neither in the Polish nor in the Czechoslovak case can the outbursts of dissatisfaction, dissent, and even open violence be attributed primarily to the inadequate economic performance of the system.

What is at the root of the unrest and opposition in Poland would seem to be the increasing discrepancy over the last few years between popular expectations and government performance. The initial popularity of the leadership provided by Poland's Edward Gierek was, after all, not only due to the new impetus infused into economic life as a result of its initiatives in 1971–72. Just as important was the new style of government, the much heralded system of consultation with all strata of the population, which suggested a genuine concern of the governing elite for popular aspirations. In shattering these hopes a potentially explosive situation has been produced. As a result of events last June, a confrontation took place between the official party and government apparatus on the one hand and a somewhat amorphous conglomeration of political forces on the other, including Catholic authorities, intellectuals and some representatives of the working class, whose main common concern is opposing the repressive features of the regime and its subservience to the Soviet Union.[1]

While in Poland the relationship between the authorities and opposition groups concerned with the protection of human rights can be described as an uneasy tug-of-war involving some measure of mutual restraint, the situation in Czechoslovakia is marked by a more acrimonious confrontation. This is due, at least in part, to the aftereffects of 1968. Despite continuous intimidation and repression, a socialist opposition movement with roots in the reformist group of 1968 has continued to operate in the country and represents a force in being that the Husak regime cannot disregard. Lately it has managed to demonstrate its viability through "Charter 77," a manifesto signed by hundreds of Czechs. The ultimate strength of this movement derives from a fundamental solidarity between a patient and fearless intellectual elite and a body of

[1] For a detailed and thoughtful analysis of recent developments in Poland, see Adam Bromke, "A New Juncture in Poland," in *Problems of Communism*, Vol. XXV, No. 5, September–October 1976.

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devoted labor leaders with considerable backing among the rank and file of the industrial workers. Its aspiration remains the humanization of conditions in Czechoslovakia not by political opposition but through a constructive dialogue with the authorities and particularly by drawing public attention to violations of civil and political rights. These activities, far from producing a "constructive dialogue," have provoked the authorities into launching a vicious campaign and taking reprisals against the signatories of "Charter 77"—all of which has generally increased political tension.

In East Germany one can hardly speak of a human rights movement in the strict sense of the term. Explicit criticism of prevailing conditions, particularly in regard to cultural policy, has been voiced by a few artists and writers, notably Professor Robert Havemann and the poet Wolf Biermann. The expulsion of Biermann at the end of 1976 led to a petition addressed to the party leadership asking for the case to be reconsidered; within a few days it was signed by more than one hundred intellectuals.[2] While this manifestation of open dissent by a "loyal group" of citizens implied an explicit challenge to the measures adopted by the party leadership, it was rather limited in scope and did not suggest a potential alliance between intellectuals and workers, as did the developments in Poland and Czechoslovakia.

Far more widespread and hence more immediately sensitive politically is another type of "human rights movement" in East Germany: the efforts of tens of thousands of East German citizens to leave the country legally, invoking the Human Rights Declaration of the U.N. and the provisions of the Final Act of the GSCE, as well as East German legislation. The contagious effect of this development appears to have brought about a reversal in the previous trend toward more liberal practices in the realm of family reunification and visits across the border between the two German states. While the general hardening of the official East German stand on contact and communication with the West has been less dramatic than in Czechoslovakia and Poland, it implies a distinct limitation of the human rights enjoyed by East Germans during the years 1973–75.

In accordance with an explicit commitment in the document itself; the text of the Final Act of the CSCE has been published in the Soviet Union and Eastern Europe in such large circulation newspapers as *Pravda, Trybuna Ludu* and *Neues Deutschland*. One of

[2] For the text of the rather respectfully formulated petition, see *Die Zeit* (Hamburg), December 3, 1976.

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the arguments behind Western insistence on making the text as widely known as possible was that this might start an internal process in the Soviet realm. This expectation has been fulfilled. Thanks to the human rights provision of the Final Act, millions of Soviet citizens became aware of their fundamental rights for the first time.

While the Final Act has thus served as an encouragement for the human rights movements in the East, the subsequent escalation of Western indictments of these practices has caused considerable embarrassment and irritation in Eastern capitals. Since governing elites in the East are ill-equipped to judge whether such manifestations of Western public concern are genuine or manipulated, the result of these interacting developments has been that the Eastern elites have become more suspicious of Western designs.

III

The human rights movements in the Soviet Union and Eastern Europe have focused the attention of their ruling elites on two fundamental issues corresponding to the individual and collective aspects of the human rights problem just discussed: (1) the relationship between socialism and liberty (or "democracy," which in this context is used as a synonym in the internal communist debates); and (2) the nature of Soviet-East European relations. Two markedly differing perspectives compete with each other when these issues are debated among communist leaders, one emanating from the Soviet leadership, the other from Eurocommunists.

With regard to the first point, the Soviet leaders, while recognizing the objective need to safeguard rights and liberties of individual citizens in the process of building a socialist society, conceive the effective enjoyment of these human rights and liberties as something gradually conceded, "handed down from above" and made dependent on the "responsible" performance of the recipients.[3]

This perspective is distinctly opposed to the views expressed by the Eurocommunists and also by the "loyal" Soviet dissident Roy Medvedev.[4] The November 1975 Eurocommunist manifesto explicitly guaranteed "the freedom of thought and expression, of the press, of assembly and association, of demonstration" as well as the

[3] See Y.V. Andropov's speech of April 22, 1976, on the occasion of the 106th anniversary of the birth of Lenin, *Izvestia,* April 23, 1976.

[4] Cf. Charles Gati, "The 'Europeanization' of Communism?" *Foreign Affairs,* April 1977; Roy Medvedev, *On Socialist Democracy,* New York: Knopf, 1975, pp. 38 ff., 311.

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"free circulation of persons at home and abroad" and the "inviolability of private life" and "religious freedom." While this stand has undoubtedly been motivated by the imperatives of the domestic situation in France and Italy, the French and Italian Communist Parties have lately displayed an inclination to propagate the universal applicability of their model of socialism, thus posing a potential challenge to the validity of Soviet concepts in Eastern Europe.

This holds true as well for the collective aspect of the human rights issue, an aspect touching upon the latitude of individual communist parties to determine their course of action with regard to crucial domestic and international questions. Here the Soviet Party leadership has insisted on retaining in major documents regulating Soviet-East European relations the key concept of "socialist [or proletarian] internationalism," a modification of the "limited sovereignty" principle invoked to justify the invasion of Czechoslovakia in 1968.[5] In addition, Moscow has attempted to equate the observance of the rules of proletarian internationalism with a stance of fundamental solidarity with the U.S.S.R., thereby underlining the claim that the Soviet Party should remain the ultimate arbiter of the collective interests of the Warsaw Pact countries.[6] The Eurocommunists, however, and the Italian Communists in particular, have forcefully advocated the right of each communist party freely to decide on its policy in accordance with national needs and circumstances. Moreover, together with other "autonomous" communist parties, they managed to elicit a formal recognition of the equality and autonomy of all communist parties at the June 1976 conference of communist and workers' parties in East Berlin.

There can be no doubt which of the two competing communist conceptions is more in line with fundamental Western values. In fact, the Eurocommunist stance corresponds with traditional goals of Western policy toward Eastern Europe, i.e., the promotion of individual liberty and some measure of pluralism as well as greater independence from Soviet domination. Yet in the West these goals have long taken second place to a concern for East-West stability. The rise of the human rights movement in Eastern Europe and the Eurocommunist challenge thus confront the West with the question of whether these same goals can now be pursued more forcefully without jeopardizing the fruits of détente.

[5] See, for example, the Soviet-East German Treaty of October 7, 1975, *Europa-Archiv*, No. 24, pp. D 655 ff.

[6] Cf. *Pravda*, January 24, 1976.

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IV

Before turning to the second main theme of this analysis—the new American stand on human rights—we must review the development of public and governmental perceptions of East-West relations prior to the election of Jimmy Carter.

Despite the controversy over the benefits of détente policies, it is generally recognized that they have produced important improvements in crisis management and a concomitant limitation of the risk of confrontations that could lead to a military conflict. While the success of these policies may in part have been due to the fact that they involved distinct restraints on Western efforts to effect internal changes in the Soviet Union and Eastern Europe, they were neither devoid of moral values nor ineffective with regard to "the human dimension" of East-West relations. In view of the stakes involved, the preservation of a peaceful relationship between East and West must in fact be regarded as the supreme moral value.[7] Nor should we underrate the tangible improvements in human conditions that were achieved as a result of the agreements of the 1970s, particularly in Berlin and the two German states. These facts notwithstanding, there can hardly be any doubt that by the end of 1976 détente policies were in the doldrums.

As for the East, even prior to the change of Administration in Washington, the reactions of governing elites to the new emphasis on human rights suggested that they no longer believed that undesired consequences of reduced tension and wider contacts with the West could be contained. Since the Soviet leadership is unable to alleviate the economic difficulties of its allies and seems to recognize the need to appease the increasingly self-confident workers, particularly in Poland, Moscow has not opposed the relentless efforts of East European governments to expand trade and economic cooperation with the West as a means to ensure technological innovation, a high rate of investment and better productivity. Particularly in view of the Eurocommunist challenge, recent developments in Eastern Europe tend to amplify Moscow's fear of an erosion of its position in the presently most sensitive and explosive part of that region, again, Poland. Such apprehensions, in turn, are liable to enhance the perceived importance of the Soviet military presence in Eastern Europe and may inhibit Eastern negotiating positions at the MBFR talks in Vienna—talks which could lead to some reduction of that presence.

[7] See also, Marshall D. Shulman, "On Learning to Live with Authoritarian Regimes," *Foreign Affairs*, January 1977, p. 325–339.

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The fact that dissenters and human rights groups in Eastern Europe have invoked the Final Act of the CSCE to support their claims has generally sensitized the attitudes of the authorities. Their statements suggest the perception of a growing threat to "the system" and may well reflect the faltering confidence of policymakers that détente implies a balance of benefits.

In the West, long before the Carter Administration came to power, the fate of such renowned personalities as Alexander Solzhenitsyn and Andrei Sakharov had contributed to a more critical public assessment of the premises underlying détente policies. In the United States in particular, the plight of Soviet and East European dissidents produced among liberals a growing disenchantment with official policies that were felt to be less than fully responsive to public pressure for a more adamant U.S. position on humanitarian issues. At the same time, the conservative wing of congressional and public opinion became increasingly alarmed by evidence suggesting a growing Soviet arms buildup, and criticized the executive branch of the government for its failure to reciprocate. The determined Soviet effort to expand its military forces worried America's European allies as well. Concern was also expressed in public debate and by governmental spokesmen in Western Europe about the discrepancy between the rhetoric of détente and developments in arms acquisition and deployment, underscored by the lack of progress in the arms control and force reductions negotiations. Concern over Soviet intentions was further heightened by Moscow's involvement in Angola, widely interpreted as a breach of the rules of mutual restraint underlying the détente relationship. The ensuing conflict between the legislative and executive branches of the U.S. government concerning what should be the appropriate response tended to undermine Western self-confidence and resolve.

In the business community, interest in cooperative ventures with Eastern partners lessened as a result of growing frustration with the political and bureaucratic constraints involved. Moreover, not only in the United States but in West Germany as well, public opinion seemed less inclined to sustain a policy of long-term cooperation with governments that clamped down on their dissidents and whose implementation of the Final Act of the CSCE disappointed many often-exaggerated Western expectations, particularly with regard to the "third basket."

Finally, the more rigid and uncooperative attitudes of the authorities in the G.D.R. toward movements across their common German border, together with Eastern efforts to tamper with the

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status of Berlin, raised some doubts about the viability of the basic East-West agreements on Berlin and intra-German relations, regarded by many as the touchstone of détente in Europe.

This review of Eastern and Western perceptions is necessarily fragmentary. The essential argument boils down to the following: in 1976 the deterioration of the general climate in East-West relations reached a point where the continuity of détente policies was seriously imperiled. A reversal of this trend seems to require: (1) the creation of a foreign policy consensus in the United States adapted to a long-term relationship with the East marked by a combination of conflict and cooperation; (2) the continued effective orchestration of Western policies toward the East; (3) the reestablishment between policymakers in East and West of the degree of trust that existed before but now seems to have wavered as a result of recent developments; and (4) concluding concrete East-West agreements, both between the superpowers and at the European level, designed to reconfirm the conviction that a rough balance of benefits accrues from détente. These basic requirements should be kept in mind when assessing current prospects in East-West relations and particularly the impact of the new signals hoisted by the Carter Administration.

V

It is notoriously difficult, especially for a European, to read those signals which suggest the main direction of American policy. At the present juncture this difficulty is compounded by the confusion resulting from a new Administration and the concomitant multiplication of authoritative statements with a more than "normal" ratio of incongruities. In spite of these caveats we must try to determine in what sense the foreign policy stance of the Carter Administration represents new departures in the American approach to the Soviet Union and Eastern Europe.

Three new features of a *general* kind and two *specific* postures seem to have had an immediate bearing on U.S.-Soviet relations. On the first score, the most distinctive new aspect of American foreign policy since the beginning of 1977 has clearly been the determination of the Administration to advance the respect for human rights all over the world. This has been reflected not only in constant declarations on the subject—from President Carter's inaugural speech through a number of press conferences to his U.N. speech on March 17, 1977—and in dramatic gestures such as the President's letter to Andrei Sakharov and his meeting with Vladi-

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mir Bukovsky. It has also led to tangible actions: foreign aid to some countries has been cut because of violations of human rights and American domestic practices are being reviewed to bring words and deeds into accord with each other. This tends to underline the Administration's assertion that in its advocacy of respect for human rights it does not wish to single out the Soviet Union.

A second substantive novelty in Carter's foreign policy is a more radical stand on arms control and disarmament. In his inaugural address the President committed himself to "move this year a step toward our ultimate goal—the elimination of all nuclear weapons from this earth." This has been followed by declarations suggesting that the Administration attributes top priority to the Strategic Arms Limitation Talks (SALT) and efforts to contain the arms race in general. Indeed, the first concrete proposals submitted to the other side in these negotiations envisaged substantial reductions of nuclear force levels.

The third new departure of a more general kind—yet with immediate relevance for U.S.-Soviet relations—relates to the commitment to "open" government. It implies a determination on the part of the President to expose the framework if not the details of negotiations with foreign powers to the continuous scrutiny of Congress and the public. In his press conference on March 24, 1977 Carter displayed considerable confidence in the ability of the executive to steer successfully between the Scylla of secretiveness, from which he clearly wishes to dissociate his own Administration, and the Charybdis of exposing negotiating positions that might jeopardize future agreements.

As to *specifics,* two innovations of the Carter Administration are again both substantive and procedural. On substance, one can note a tougher ideological stance reflected in the belief that the ideological struggle is a two-way street and the request that Congress double the funds for Radio Free Europe and Radio Liberty. With regard to procedure, there is the explicit disclaimer of the Administration about "linkages" between issues, and particularly the insistence on the fact that the SALT negotiations need and should not be affected by the more articulate official U.S. stand on human rights.[8]

VI

What can be said about the effects of these changes in regard to a new start in détente policies? At this writing, the Carter Adminis-

[8] In the words of the American Secretary of State " . . . SALT is so important that it can and should stand on its own two feet . . . ." Transcript of a press conference held by Secretary of State Cyrus Vance in Moscow, March 27, 1977, United States Information Service, Stockholm.

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tration is clearly still in its initial probing period. Thus, the following observations are based more on impressionistic hunches than on conclusive evidence. There can be hardly any doubt, however, that the rebuilding of a viable policy consensus is high on the agenda of the new Administration; moreover, it seems to be succeeding in this task. The erosion of popular confidence in the executive resulting from Vietnam and Watergate, the concomitant deep crisis in executive-legislative relations and the inability of the previous Administration to revive public support through diplomatic achievements contributed decisively to the present low tide in East-West relations. To paraphrase Stanley Hoffmann, the balance-of-power strategy did not balance at home (although partly for reasons that he could not foresee in 1972).[9] Measures aimed at redressing that domestic American balance must be of primary interest not only to the United States but also to the Western alliance as a whole, and indeed to everyone concerned about, continued détente.

To judge from early public reactions in the United States, two features of the foreign policy stance of the new Administration have been particularly conducive to generating the popular support that Carter is so eagerly seeking: his advocacy of human rights and his commitment to open government. This is hardly surprising in view of the traditions of American society and the deeply felt need to relate the government's foreign policy to fundamental values reflected in these traditions. The question that arises, however, is whether in terms of *substance* the emerging domestic consensus is adequate for the conduct of a foreign policy adapted to the realities of the present era. Here doubts must be expressed with respect to repercussions both on U.S.-West European and East-West relations.

As for America's European allies, their initial reservations about the new Administration may well have been primarily related to other issues than East-West policies, such as nuclear technology exports, relations with the Third World, weapons acquisition and arms transfer policies. Yet the articulated American stand on human rights in combination with the new open style of government have caused considerable bewilderment both in official circles and in the media. This is particularly true of West Germany—always most sensitive to changes in Washington that might affect its precarious security, as well as being the West European country with the most immediate interest in a low-tension relationship with

[9] Stanley Hoffmann, "Will the Balance Balance at Home?" *Foreign Policy*, No. 7, Summer 1972.

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the East. There seems to be serious concern in the Federal Republic lest a new upsurge in American moralism impair rational policymaking and endanger the relative stability in East-West relations.[10]

The opportunities for closer U.S.-West European cooperation on issues relating to the "human dimension" of East-West relations should in principle have been enhanced by the Administration's genuine concern for human rights. In view of the upcoming CSCE follow-up conference in Belgrade in June it would be particularly regrettable if the Carter Administration's first approach to these issues were to make a continued effective orchestration of Western policies toward the East more rather than less difficult.

Even more serious, however, are the immediate effects on the essential relationship between policymakers in Washington and Moscow. The new features of U.S. foreign policy and particularly the stance on human rights have called into question some of the fundamental premises underlying earlier policies. In 1975, when the results of Mr. Kissinger's endeavors were being subjected to increasing criticism at home, George Kennan issued a call for forbearance that contained the following warning: "To many people, the advantages of the present relationship [with the Soviet Union] may not seem large. But they represent the product of long and patient effort; and they rest, such as they are, on certain reassuring concepts of the motives and purposes of the other party which it has taken long to establish but which could be quickly shattered by confusing signals or abrupt changes in personality and behavior at either end. Once shattered, these concepts could not be easily restored . . . ."[11]

Reviewing the events of recent months it is hard to escape the conclusion that what Kennan was anxious to avert is beginning to happen. President Carter's stand on human rights and his tougher ideological posture are liable to increase Moscow's concern about what has been called above the bridgehead function of dissidents and opposition groups inside the Soviet Union, as well as its fears of explosive developments in Poland, Czechoslovakia or the German Democratic Republic.[12] Furthermore, the new American stand has made it more difficult for the Soviet leadership to differentiate between "sober-minded Western leaders"—with whom

[10] For a well-reasoned argument along these lines, see Marion Gräfin Dönhoff, "Weltpolitik mit Fanfarenstössen," *Die Zeit*, March 4, 1977.

[11] George F. Kennan, "The Realities of Détente," *International Herald Tribune*, January 13, 1975.

[12] Cf. Leonid Brezhnev's speech to the 16th Congress of Soviet Trade Unions, March 12, 1977; also Dr. Georgi Arbatov's remarks to Henry Brandon, reproduced in the latter's article, "Carter's rebel calls have upset the Kremlin more than he thinks," *The Sunday Times* (London), March 21, 1977.

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businesslike cooperation is possible and desirable—and "aggressive imperialist forces" attempting to poison the international atmosphere and to subvert the peoples of the Soviet Union and Eastern Europe. Hence, the difficulty in mobilizing the necessary elite consensus for continued détente policies and in arriving at agreements with Washington, even on subjects where the mutuality of interests continues to be recognized by both sides. By disclaiming any explicit "linkages" between *particular* issues, the Carter Administration disregards the *inherent* interconnection of *all* major policy questions in East-West, and particularly U.S.-Soviet, relations.

It is this inherent interconnection that Georgi Arbatov, one of Mr. Brezhnev's close advisers, must have had in mind when he emphasized the latter's observation that "further developments in Soviet-American relations will also depend on the overall 'level of détente' which means among other things mutual confidence and trust."[13] But what is meant by mutual trust between leaders whose world outlook and values are diametrically opposed?

West Germany's Egon Bahr, who shares with Mr. Kissinger the experience of being both the architect and the chief negotiator of major agreements with Moscow in the early 1970s, has declared that the most difficult part of his negotiations with the Soviet leaders was to convince them of "the sincerity of our intentions." He has described confidence-building between the top leadership in Bonn and Moscow as a process involving a continuous effort of both parties to delineate primary interests, including those that were diametrically opposed. As a result, there emerged a kind of minimum trust between the two sides which Mr. Bahr denoted as "vigilance."[14]

Two aspects were characteristic of both Henry Kissinger's and Egon Bahr's endeavors: (1) the evolution of a conceptual framework for the overall relationship with the Warsaw Pact countries that took as its first priority the safeguarding of peace in the nuclear age; and (2) the centralization of policymaking and of the conduct of the most important negotiations. Both would seem to be essential for sustaining the kind of limited mutual trust that was achieved as a result of the East-West negotiations of the early 1970s. Both have so far been lacking in the most recent stage of U.S.-Soviet relations.

Yet it would be disastrous indeed if we concluded that the urgent requirements of consensus-building in the United States are in-

[13] See Fred Coleman's interview with Arbatov in *Newsweek*, March 21, 1977.
[14] See Egon Bahr, "Vier Jahre Ostpolitik," *Die Zeit* (Hamburg), December 14, 1973.

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compatible with the equally urgent requirements of confidence-building with the Soviet Union. Is there a way out of this dilemma?

VII

The first business at hand would seem to be to salvage a maximum of those "reassuring concepts" of the motives and purposes of each party which George Kennan has pinpointed as an essential element of stability in U.S.-Soviet relations. This requirement applies to the European allies of the superpowers as well. The reaffirmation of the "importance of the quadripartite agreement of September 1971" after the unsuccessful first round of SALT negotiations in Moscow indicates that both sides were aware of the significance of the Berlin accord as a symbol for the continued viability of certain ground rules.[15]

But the uneasy probing period in U.S.-Soviet relations during recent months has also shown the need to reassess the assumptions underlying these ground rules and to modify and complement them where necessary. Georgi Arbatov's suggestion of "a code of principles . . . which would draw a line, mostly on the basis of common sense, on what is good or bad for détente" points in this direction.[16]

Since the new foreign policy consensus emerging in the United States includes a strong emphasis on human rights, a new code of conduct between East and West must take this into account. The earlier the Soviet leadership recognizes the genuine public concern for human rights as a major determinant of Western foreign policy the better for détente. The West, on the other hand, will have to elaborate a human rights stand that not only constitutes a key element in its overall strategy toward the East but also stands a fair chance of producing tangible results. U.S. initiatives which reflect concern for *both* these requirements will certainly be welcomed by the West European allies and other European states, who have been strong advocates of a prominent human rights stand in the CSCE negotiations and were at times dismayed by the "low profile" of the previous American Administration on these very issues.

A common Western position which meets these requirements should be based on the recognition that a crucial—though not a sufficient—condition for improvements in respect to human rights in the East is the continuation of détente itself. To safeguard the

[15] See text of U.S.-Soviet communiqué issued March 31, 1977, in *The New York Times*, April 1, 1977.

[16] See Arbatov's remarks to Henry Brandon, quoted in the latter's article from Moscow, *The Sunday Times* (London), March 21, 1977.

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continuity of détente must therefore be the first priority of any Western policy designed to champion human rights in the Warsaw Pact countries. This suggests that an effective Western strategy will have to make clear the distinction between the formulation of official Western goals and the means adopted to promote them. As for the *goals,* it is both legitimate and essential to proclaim the promotion of individual liberty, some measure of pluralism, and greater East European independence from the Soviet Union as objectives of Western policy. It is equally important to emphasize that the ultimate goal is to bring about a situation where respect for human rights in the widest sense of the word will be recognized by all governments as the best guarantee of peaceful and productive interstate relations. And the *means* employed by a common Western strategy for the promotion of human rights will have to reflect deference to established rules of intergovernmental relations.

This need not conflict with "open government," since the latter is not necessarily identical with "open diplomacy." But it will clearly impose restraints on the kind of measures Western governments can adopt to promote human rights in the East. It is one thing for a Western government to be outspoken on these issues; it is another thing to go beyond moral support of human rights movements and to take measures which can be more easily construed as interference in internal affairs. Such measures are likely to be harmful rather than helpful to the movements themselves.

A common Western human rights stand must, therefore, not only reflect the greater public concern with these issues but also produce tangible results roughly congruent with popular expectations. The approach suggested by President Carter's initial performance hardly satisfies these criteria, since it has served to undermine the limited degree of trust between governments in East and West while at the same time raising new hopes in East and West. The growing discrepancy between popular expectations and likely results inherent in this approach could well lead to disenchantment and frustrations on both sides. The President's letter to Andrei Sakharov and his meeting with Vladimir Bukovsky can perhaps be explained in the light of the previous Administration's misjudgment of the public mood. But from the point of view of the realistic management of East-West relations these steps must be deemed political errors.

This is not to suggest that the President of the United States cannot write to or meet with Soviet or East European dissidents. One could well imagine circumstances when such steps might in fact protect a given individual against reprisals. But in the overall

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context of East-West relations the consequences of such initiatives have to be very carefully calculated. Under the conditions prevailing in early 1977 and within the framework of what appeared at the time as a presidential crusade in support of human rights, the effect of these particular steps was to jeopardize the continuity of détente policies and thereby one of the essential foundations for the effective pursuit of the respect for human rights in the Warsaw Pact countries.[17]

A recent pronouncement of President Carter suggests that he is now fully aware of the need to pursue the human rights effort "in a sensitive way."[18] Generally speaking, the most promising path to achieve tangible results would seem to be a gradualist approach attempting to demonstrate as convincingly as possible to the other side the close interconnection between major elements of policy in the management of East-West relations and the more conspicuous role of the human rights issue in the overall spectrum of public concerns in the West. Regular review sessions on the implementation of the Final Act of the CSCE would seem to offer the best conceivable machinery for this kind of long-term operation, provided they are not turned into tribunals of mutual recrimination.

This approach does not preclude either Western efforts to conduct the intensified ideological contest on more equal terms or a determined advocacy of respect for human rights. A forceful stand on human rights at the Belgrade conference seems, in fact, unavoidable in view of the changes in Western, and particularly American, public opinion on these issues since the Helsinki conference.

What does seem essential in this context is to convey to the governments of the Warsaw Pact countries that Western support for human rights movements in the East does not reflect an aspiration to upset the political and social systems in these states.[19] The goal must be to make it clear that Western advocacy of respect for human rights is motivated in part by a concern for the predicament of individuals flowing from an appreciation of the intrinsic value of each human being; but it also derives from the conviction that

[17] Henry Brandon quotes Roy Medvedev as saying: "It is too bad that Carter launched his foreign policy with a crusade in support of Soviet dissidents. If he had taken up our cause after he had achieved progress in, say, arms negotiations, he might have achieved better results." Henry Brandon, "Carter isn't helping us, says Soviet dissident," *The Sunday Times* (London), April 10, 1977.

[18] See the President's interview with the four *Europa* newspapers, reproduced in *The Times* (London), May 3, 1977.

[19] A recent pronouncement of President Carter should offer some reassurance to the East on that score. In connection with the American human rights effort he asserted: "We cannot change the structure of governments in foreign countries. We cannot demand complete compatibility in a system of government or even basic philosophies with our own, but we reserve the right to speak out freely and aggressively when we are concerned." *Ibid.*

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deference to the aspirations of human rights movements is the best guarantee that accumulated problems will not one day explode, with incalculable risks for peace in Europe and throughout the world.

Is this all wishful thinking? We do not know. But there is some encouraging evidence suggesting that the CSCE process may have served as a constraint against extreme forms and extensive application of repression in the East. In addition, it has induced the authorities in the Soviet Union and Eastern Europe to institute practices which, while marginal from the Western point of view, nevertheless constitute some improvement of human conditions. Finally, as the British Foreign Secretary, Dr. David Owen, has rightly stressed, the first task of governments must be to "provide and sustain the framework of peace and security within which human rights can be discussed, championed and enlarged."[20] Only if governments are successful in achieving this task will Western, and indeed Eurocommunist, opinion be able to affect internal developments in the Soviet Union and Eastern Europe. Even so the effects can only be gradual and long-term.

Whether this approach is compatible with the requirements of winning the confidence of governments in the East remains to be seen. But at least we have the signatures of their leaders on a document that explicitly legitimizes this approach—the Final Act of the CSCE. To make the best possible use of that instrument to sustain the framework of peace and security in Europe is the challenge confronting all those governments meeting in Belgrade.

[20] See Dr. David Owen's speech before diplomatic writers in London, as quoted in Peter Jenkins' article "Delicate Balance," *The Guardian Weekly*, March 13, 1977.

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James O. Goldsborough

EUROCOMMUNISM AFTER MADRID

One of the more surprising things about the meeting of the "Eurocommunists" in Madrid last March was that they came away calling themselves Eurocommunists. The quotation marks came off in Spain, and the French, Italian and Spanish Communist Parties now willingly talk of Eurocommunism. Spanish Party leader Santiago Carrillo has even published a book bearing the title. The main reason for the change, as French Party leader Georges Marchais explained in Madrid, was the discovery that to be known as Eurocommunists was somehow helping. "I was struck," said Marchais, "by the headline in a reactionary French newspaper yesterday that said, 'Eurocommunisn is a farce.' I say no, it is not a farce. It is something serious."

But how serious? That is the question. Portugal's Socialist Premier Mario Soares called the Madrid meeting, "one of the most important of the postwar period—it could have profound effects on world communism." France's President Giscard d'Estaing, however, still speaks of French Communism's "historic decline." Yet all of Europe's leaders are at least covering their bets. Giscard d'Estaing has already begun private contacts with the Left, just in case it wins the parliamentary elections scheduled for 1978. West Germany's Chancellor Helmut Schmidt, who not so long ago was warning the Italians about the dangers of the "historic compromise," had a much-remarked private chat with Italian Communist Party leader Enrico Berlinguer during the recent summit meeting of the European Community in Rome. Norway's ruling Labor Party recently adopted a policy paper urging that Latin Europe's Left be brought into the power structure in some way. Even the United States is finally making official contacts with Communists in France and Italy (though carefully avoiding the Spanish Party until after the elections)—something which both the French and Italian governments have protested.

The Declaration of Madrid stated what Eurocommunism was, and by implication, what it was not. Communism in Western

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Europe, it said, will respect traditional Western human rights, including universal suffrage, political plurality and individual freedoms. The Declaration reads a bit too much like the U.S. Bill of Rights, which was one of the reasons it was given very little coverage in Eastern Europe. Only *Neues Deutschland* in East Germany printed it in full. Soon after Madrid, Vasil Bilak, the pro-Soviet Czechoslovak party member, reportedly labeled the Eurocommunists "traitors" at a Central Committee meeting, something which caused M. Marchais to respond: "If these remarks are correct, you can be sure we will react vigorously." Privately, a leading French Party member remarked, "It wouldn't surprise me at all. Our relations with Prague are not good."

The Madrid meeting was held ostensibly to mark the support of Western Europe's two largest parties for the Spanish Party, emerging into legality after 40 years of clandestinity and exile. But there was little doubt that the meeting had wider significance. Here was an attempt by three parties with a history of estrangement to proclaim their convergence. But in converging, they also were diverging from something, and the game in Madrid was how to formulate this. Madrid was the symbol of Western Europe's divergence from Eastern Europe, but it had to be marked in such a way as not to burn any bridges. "We did not go to Madrid to provoke anybody," said an Italian Politburo member. Eurocommunism had to be defined forcefully enough so that anti-communists could not dismiss it as merely tactical, but not enough so that Madrid became the symbol of a "third schism" or, to use M. Marchais's phrase, "a new international center."

II

Only two years earlier, such a summit meeting would have been unthinkable, and not just in Franco's Madrid. Though the West European communist parties had been meeting sporadically since a first meeting in Brussels in 1974, contacts between the French and Italian Parties were few, and each Party's view of the other was stereotyped. The French were "Stalinists" and the Italians were "opportunists," and both freely employed such words in front of non-communists. Meanwhile, the Spanish Party-in-exile, in the avuncular personage of Señor Carrillo, could be found on the fifth floor of a modest office near the Paris Bourse, where the Spanish Secretary-General freely expressed his "astonishment" over the French Party's continued hard line. Carrillo's feelings toward the Italian Party were warmer, and it was well known that the Spanish exile operations were financed in large part not by the Soviets or

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the French, but by the Italian and Romanian Parties.

What happened between the spring of 1975 and that of 1977? The answer is complex but, to begin with, a few general remarks can be made. From April 1974 onward, the eyes of Europe were riveted toward Portugal and the unraveling of fascism. Washington was no less fascinated, and Secretary of State Henry Kissinger spoke of the "vaccination" theory, which held that a left-wing takeover in Portugal could at least have the positive effect of weakening the communists in the more important nations of Latin Europe.

Certainly Carrillo and Berlinguer sensed the danger. Berlinguer warned the Portuguese Party during the March 1975 Italian Party Congress that their methods were dangerous. Carrillo said in two separate private conversations in Paris that Cunhal had gone too far, and that his failure (or success) could have disastrous consequences for Spain. "Cunhal is a man of the past. He has been in jail too long," said Carrillo. Enlightenment for the French Party was still some six months away.

Portugal was not the only force that would lead to the policy enunciated in Madrid three years later. In Italy, Berlinguer, lying in bed recuperating from a near-fatal automobile accident in Bulgaria, had used his convalescence to "read and reflect," as he put it, mostly on the fall of Allende. When he was well again, in early 1974, he proposed to his party the "historic compromise" with the Christian Democrats, an updated version of Gramsci's "historic bloc" and Togliatti's "anti-fascist bloc." Socialism could not be built in Italy, reasoned Berlinguer, with only 51 percent of the vote. As Berlinguer was later to discover, the most difficult part of his program to sell to his party was the single word—"compromise."

In France, too, there were developments. Valéry Giscard d'Estaing had been elected President in March 1974, by only 1.4 percent of the vote over the Communist-backed candidate, Socialist François Mitterrand. The Socialist-Communist Common Program of Government, written in 1972, had stood up well to the test. During the election, Soviet Ambassador Stepan Tchervonenko made a well-publicized call on candidate Giscard to offer Soviet support against Mitterrand. The French Communist Party (PCF) has never forgiven that; to this day Marchais has refused to see Tchervonenko, who has the additional misfortune, in French eyes, to have been the Soviet Ambassador to Prague in 1968.

In Spain, the actors were still offstage, but they were rehearsing. The most remarkable thing about this period—from autumn 1973 until autumn 1975—was a certain simultaneity of independent

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events in four different countries. Fascism was ending in Iberia after decades of rule, Berlinguer was evolving as a result of Allende's fate, Marchais was brooding over the "treason" of the Soviets, the party the French had served so loyally for so many years.

Europe is the least isolated of the continents, and this same period saw the beginning of the world economic crisis. The Italian Party, and a bit later the French, knew this was an opportunity not to be missed. Whether or not it was the beginning of capitalism's death rattle, it was at least the end of the boom that for years had helped keep the conservatives in power in Latin Europe. Thus, the economic crisis, coupled with the wave of scandals that began to link international business—usually American—with foreign officials, reinforced the communists' belief that their time had come. They were the party with clean hands.

Nor can events within the Soviet Union and Eastern Europe be ignored. As the memory of Vietnam faded, as truce came to the Middle East, liberals in Europe were in search of new targets. Chile's Pinochet was obvious, but what was he doing that was not being done in the Soviet Union? Neither the French, Italian nor Spanish Parties could allow themselves to be outdistanced by their Socialist rivals, who never failed to link Santiago and Prague. Moscow was used to the criticism of Berlinguer, not so different from that of Togliatti, but for the French to carry the ball was something quite new. By the time of the French Party's 22nd Party Congress in early 1976, there was a clear anti-Soviet tone to the PCF declarations. It was strident enough so that Andrei Kirilenko, the Soviet Politburo member sent as official delegate to the French Congress, felt obliged to make a speech denouncing "anti-Sovietism" wherever it was found. He had found it in Paris.

But nothing was more important for Eurocommunism than détente. Communism did not thrive in France and Italy, to say nothing of Spain, during the cold war, and a return to such conditions would only isolate the communists again. French Communism has still not totally recovered from Prague 1968, an event that crushed the health of then Party leader Waldeck Rochet, who had begun the first, tentative steps toward leading the PCF away from its hard-line posture of the Thorez years.

The mood of détente, and particularly of the Helsinki security conference, made more credible such policies as Carrillo's Junta Democrática (the Center-Left coalition formed in exile), Berlinguer's "historic compromise," and Marchais' "Union of the French People." These policies, based on the former anathema of class

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collaboration, would be impossible if a new chill divided Europe again into the Manichaean confrontation between East and West, communists and democrats. Détente also enabled the West European communists to soften their foreign policy stands and so to widen their political bases within their own countries. No longer was there any question of immediately dismantling the Atlantic Alliance, which could be construed as an invitation to Soviet hegemony.

Despite the new moderation, the question of "cheating"—of somehow acting in a way that favors the Soviet Union, a point raised in these columns last year by Sergio Segre of the Italian Party—still holds.[1] There are many people who insist that the Eurocommunists, no matter how much they may pretend to be independent or even anti-Soviet, would come down on the Soviet side in a crisis. In short, they cannot be trusted any more today than they could during the worst of the cold war when both Togliatti and Thorez said publicly that if the Red Army entered Europe to fight against NATO, the communists' role would be to fight on the side of the invaders.

Segre argued that "cheating" would be impossible today because of the communists' "awareness of the sources of their support"—meaning the people and implying a certain inherent anti-Sovietism in the people. Carrillo, in Madrid, ducked the question by saying that, "in a confrontation between the two superpowers we would not have time to make a choice. It would be the nuclear destruction of Europe . . . the question today is how to avoid this confrontation of which we would be the first victims. If we don't, we will all go to hell." This question of "cheating" never goes away in France, where many a debate between communists and non-communists ends in a shouting match over Prague, and who would serve as the French Party's Husak, Bilak and Indra to invite the Soviets in for "fraternal aid." Georges Marchais, asked about this on a press show this spring, responded, "if you are talking about our asking for outside socialist help to counter an invasion by imperialistic forces attempting to destroy socialist achievements in France, the answer is we would do what was necessary to defend socialism."

The implicit question is whether the Eurocommunists now define their present success as directly proportional to their distance from Moscow, and would not jeopardize it—even in a crisis—by dredging up a subliminal nostalgia for the Comintern. If this is the case, then Togliatti's "polycentrism" has indeed triumphed and

[1] See Sergio Segre, "The 'Communist Question' in Italy," *Foreign Affairs*, July 1976.

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there can be no "cheating." Many people, however, remain to be convinced. They do not pose the question as Santiago Carrillo posed it—as a dire choice between East and West as the bombs begin to fall—but rather as the beginning of a process that gradually neutralizes Western Europe, achieves the withdrawal of the United States and leads ultimately to Soviet hegemony and Finlandization. U.S. diplomats abroad already point out that despite the frequently independent line of the Eurocommunists in many areas, these West European communists rarely criticize the Soviet Union's foreign policy.

A cautionary note: the Communist Party is a long way from being the majority party in any nation of Western Europe. In Italy, where it is strongest with 34 percent of the vote, it may have reached its ceiling. In general, West Europeans are not communists, and the present success of the Eurocommunists is not only in relation to their estrangement from Moscow but to their abandonment of cold war policies and the dogma that since 1921 has separated them from the socialists, such as the dictatorship of the proletariat and international proletarianism. In fact, all that's left of what used to be known as the three doctrinal pillars of bolshevism is democratic centralism, and at times there seems to be very little of that.

No communist party is going to come to power alone in Western Europe, nor is it likely even to come to power as the dominant force in a coalition. The communists will not be in a position to impose their policies on anybody except by force, which historically has been fatal for them in Western Europe. Force creates reaction, and Portugal offers a striking example of what can happen to a party that overshoots. Mario Soares still bristles when he tells how Kissinger predicted that he would become the "Kerensky" of Portugal. This is, after all, Western Europe, with its democratic heritage, not Eastern Europe in the shadow of the Tsars.

III

In one key aspect, communist parties are no different from their capitalist counterparts: they are marked by the personalities that lead them. Nowhere is this more evident than in Italy. Gramsci, Togliatti, Longo, Berlinguer, each with ties to Sardinia, each an intellectual—with Berlinguer a noble to boot. There has been little of the *ouvrièrisme* in this party that has marked the French.

The second influence on the PCI has been fascism. Luciano Lama, the university-educated head of the CGIL, the Communist-

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led labor union, says, "if our party seems a little strange to others, there are historical reasons." The long years of clandestinity gave it an early independence, says Lama. To be sure, both Gramsci and Togliatti went to Moscow; but one of the more interesting aspects of Gramsci's voluminous writings is that nowhere does he talk about the Soviet Union or his impressions of Moscow, even in his rambling *Prison Notebooks*. Togliatti used his World War II exile in Moscow not to return home praising the virtues of bolshevism but to develop his ideas of an "historic bloc." He recognized that if fascism had momentarily triumphed in Italy it was not because Mussolini had stolen power but because he had been able to "mobilize the masses," to unite Italians, to create what Togliatti called a "national, popular, collective will" of the Italian people.

This need to create a national consensus, to immerse the party in Italian life rather than to isolate it into the "countersociety" of the French Party, has marked the PCI since its formation in 1921. The early party battles were fought largely along nationalistic lines. Gramsci, the emaciated intellectual, fascinated as much by Bergson as by Marx, actually was the "centrist" candidate for the first leadership post, between Bordiga's nationalism and Tasca's nostalgia for the Second International.

Despite its liberal image today, the Italian Party must still be held accountable for its cold war past. During that period, the PCI flew with the hawks. Tito was vigorously condemned in 1949 by the same Togliatti who, in 1956, would discover the virtues of polycentrism. Moreover, Togliatti's polycentrism had its limits—it was not to be extended to Eastern Europe. The PCI approved the crushing of the 1956 Hungarian uprising by the Soviet Union.

The Eurocommunists today regard this past as so much water under the bridge. At Madrid, Georges Marchais, asked why the Eurocommunists did not take a strong stand in favor of human rights in Eastern Europe, replied: "we are not here to make a collective judgment on anybody . . . we have learned the lessons of the past. You remember that not so long ago we condemned the actions of the Yugoslav League of Communists, that we 'excommunicated' the League. We were wrong, and we are not going to start that again." Berlinguer, asked last year to comment on the cold war period, argued that it was past history: "The hypothesis of a return to the cold war does not seem reasonable to us. Even if the world is still going to have its chills and warm spells, détente today corresponds to objective necessity, except, of course, in the case of unforeseeable catastrophe." The message, in any case, is clear: the cold war period is over, and the present is another story.

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With 34 percent of the vote today, a steady progression in every election for the past 25 years, the PCI is now the most powerful communist party in any democratic country. Not only is it nearly on a par with the Christian Democrats (38 percent), but it has pushed the divided socialist parties into a position of marginality. It has done this by enlarging its base beyond the proletariat, increasing its appeal in the tertiary, white-collar sector, generally proving its responsibility on the municipal level, staying clear of the bribes and scandals that have weighed on the Christian Democrats, defending a certain evolution of society on such issues as divorce and abortion, and maintaining open, modern, classless policies on most of the key problems facing Italy today.

Economically, the Party's line is somewhat to the right of the French Socialists. The Party thinks that Italy has enough nationalized industry, for example, "We don't like nationalizations, permissive credit and that sort of thing any more than the others," says Luciano Barca, the leadership's spokesman on economic affairs. "We, too, are against inflation. But we are for more planning and the guarantee of demand. The government must guarantee markets. It must control the swings of the cycle."

In some ways the PCI has even become a conservative force in Italy, as was demonstrated this spring during the riots by students and young, unemployed workers. Once again, the PCI has worries on its left. Such groups as Lotta Continua, the Autonomi, Democrazia Proletaria led the riots in Communist-run cities to protest against what they said were two million young unemployed and 900,000 students soon to be added to that. The Communist labor leader Luciano Lama was physically attacked when he tried to address students at Rome University.

The PCI is thus running a risk, and it is a risk the French Communists often remarked upon before deciding to run it themselves. The risk is that to be associated with power in difficult times is often to be associated with failure. The West European Communists have usually been comfortable in the opposition. The Italian Socialists, after all, were nearly destroyed by their decade of association with the Christian Democrats in various Center-Left governments. Now the Communists are asking for their turn. Why? The best answer to that comes not from the Italians, but from Georges Marchais, who was defending the French Communists' new line—his line—at the 22nd Party Congress last year. "To exercise a role in the direction of affairs is the legitimate ambition of all political parties," he said. "Why should other parties be inspired by that ambition and not us?"

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IV

That must be the starting place for any analysis of the French Party today. The PCF wants power, and it has not always been that way. In fact, it has been that way for such a short time that as recently as early autumn 1975, following a series of damaging by-election and county election losses to their Socialist partners, it appeared that the PCF was having second thoughts about its strategy of an alliance of the Left. Marchais' policy was being challenged by Party elements who believed that the Socialist Party's comeback under François Mitterrand posed a mortal threat, not so much to the government majority as to the Communist Party itself, which risked becoming a marginal "15 percent" party. Was it not better, asked the challengers, to be number one in the opposition than a mere accessory to those in power? This period presented the most serious threat to Marchais, and in overcoming it, he became free to set his party on a most remarkable course of change.

The symbol for the change was Marchais' November 1975 visit to Rome and the signing of what the French Party hailed as an "historic declaration" of solidarity between Marchais and Berlinguer, the word "historic" being carefully avoided by the Italians. In the same month, the PCF switched positions at the preparatory meeting for the pan-European communist summit meeting that would finally be held in Berlin the following summer. Until the November meeting, the PCF had been supporting the East German-Soviet position, but in November it switched to join the Italian, Spanish, Yugoslav and Romanian position, quite different on key points from the other.

Three months later, the PCF held its 22nd Party Congress, which it had built up for weeks as an "historic" congress. The news, of course, was the abandonment of the "dictatorship of the proletariat," which was sheer nonsense since hardly anyone this side of the Albanians, including Portuguese leader Cunhal, defended that anachronistic position anymore. Yet, dropping the "dictatorship" became the symbol of the French Party's new change, its "turning point," and its proclamation of "socialism with French colors."

The comments of the other Eurocommunists on the PCF's turning point are noteworthy. Both the Italians and the Spanish will discuss it—though always "off the record" when speaking of such fraternal matters. They are highly skeptical. One leading Italian Communist put it this way: "The history of our Party is consistent. We have arrived at our positions through open, public debates. You can read about this in the books of Gramsci, Longo, Amen-

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dola. The French always have been secret. I've never seen a polemic between Marchais and Paul Laurent, for example, on the Congress of Tours [1921]. We are frankly shocked by the rapidity of the French changes. You don't make history by leaps."

In this frank comment there is an element of jealousy, of rivalry and of francophobia. One of the surest limits on the potential of Eurocommunism is the one imposed by nationalism. Italian and Spanish Communists, no less than others, are worried about French dominance. It was sufficient to watch Marchais dominate Berlinguer and Carrillo in Madrid to get this feeling.

However, the Italian quoted above may well be wrong. The French Party has made a considerable leap, and if the Italians are a bit envious that their position as the most enlightened of the Eurocommunists is now threatened, that is understandable. But, at this point, there is little evidence to support the view that the French changes are merely "tactical" and that the French Party, more than the others, would "cheat." The PCF has taken a different road to Madrid, but it got there just the same.

The French Party is certainly aware of what is being said about it. One member of the Central Committee responded this way: "It is an error for anybody to think that our turning point does not represent a long-term serious policy. There is nothing tactical about this." Asked what single element played the greatest role in arriving at this turning point, he gave a long, dialectical analysis of how communism never rejected change, then summed up the real reason: "Just as people talk about the problem of *usure de pouvoir,* there is also an *usure de l'opposition*."

L'usure de l'opposition, the idea that you can't stay in the opposition forever without losing credibility, dominates the PCF thinking today. The new faces, the men brought into the Central Committee and Politburo by Georges Marchais, are not the Stalinists of Thorez' time. Of the Central Committee's 121 members, 66—more than half—have been elected since 1970. Only three remain from before the Second World War. The average age of the Politburo's 21 members is 50 years old, and 10 of them have been elected since 1970. These statistics show that the men running the Party today are the men of the Common Program, and that program, signed with the Socialists in 1972, is a program of government, not of opposition.

It is the Common Program of Government that makes the French situation today different from any other. It is spelled out, in the Communist edition, in 185 pages of rather remarkable precision about how France would be governed by the Left. It also

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conveniently sets aside all the difficulties such a government would face—constitutional problems, relations with a centrist president, the possible fall of the franc, problems within the European Community and the Atlantic Alliance. And it disregards all the differences between Socialists and Communists themselves.

The two Parties are currently revising the Program to get ready for the elections, but two areas are so sensitive that they are certain to be evaded. Yet these sectors are crucial to the success of the Left's enterprise: one is defense and the other is nothing less than the organization of the economy, the question of workers auto-determination or *autogestion*.

The analysis of these two problems is beyond the scope of this article. The question of *autogestion* is a basic difference between the two Parties of the Left—the Socialists want to put private enterprise in the hands of the workers; the Communists want to turn it over to a state bureaucracy. Of the two problems, defense is probably easier, since the PCF has shown clear signs of evolution lately by accepting the nuclear striking force. There is a certain logic to the belief that now that the PCF has become a "national" party, it will come to accept an independent nuclear force as long as universal disarmament is not achieved. But the French Communists have been considerably more disposed than the French Socialists to aligning their views with those favored by the Warsaw Pact nations—such notions as nonaggression pacts, renunciation of the first use of nuclear weapons, a nuclear-free Central Europe and so on.

At this point in history, the party wears its new clothes uncomfortably, something shown in such things as the continued "class struggle" language used by the leadership, the grumbling of the rank and file, an occasional article of hard-line dissent, and the cheering of the workers for Soviet Party Politburo member Andrei Kirilenko. The PCF remains essentially a tough-talking workers' party. Perhaps it is succumbing to the lessons of French sociology, those that show, as Marchais pointed out at the 22nd Party Congress, that the proletariat is a diminishing percentage of society; but it does so with obvious reluctance. The point is that it is doing it. For either the new class of white-collar, technical and office workers must be won over to the Party, or it will be communism, not capitalism, that ends up in the dustbin of history.

V

The Spanish Party (PCE) is indeed the little brother of the Eurocommunists. Like the Portuguese Party, for which it has little

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use—but then Spaniards and Portuguese have little use for each other—it survived decades of persecution and clandestinity. In both countries, however, the years of fascism took their toll, and the Parties emerged weakened. Their weakness led to diametrically opposite conclusions, with the Portuguese making a strong Leninist bid for power, while the Spanish appeared so moderate that on some issues they were to the right of the Socialists. One of the PCE's first moves was to accept the monarchy, which the Socialists did not feel obliged to do.

There can be no doubt about Santiago Carrillo's anti-Sovietism. He has never hidden it, and was rewarded during the late 1960s and early 1970s by Moscow's open backing for Enrique Lister, the old Civil War general, who had the virtue, in Moscow's eyes, of approving the Prague invasion of 1968, which Carrillo condemned. Carrillo has his own ideas for communism in Spain, ideas which scarcely involve the Soviet Union.

"The fruits of our policies of moderation," he told the first legal meeting of the Central Committee in April, "have been our legalization." He spoke of the "criticism" of his policies and said that "any kind of vanguard tactics would only lead to reaction in this nation that still lives in the past." All these remarks were made public, as was the first vote of the Central Committee, which included 10 abstentions out of 132 votes. Most of the abstentions came over the Party's acceptance of the national flag (instead of a return to the flag of the Republic of 1931–39) and its acceptance of the King.

The PCE is operating from a position of great weakness, probably weaker even than the Portuguese Party, that won only 12 percent in that country's first free elections, in 1975. All Carrillo's actions, which were completely consistent with what he used to describe from his exile in Paris, were directed toward overcoming the bitter memories of the Civil War and 40 years of fascist propaganda which had blamed that war exclusively on communism and the Soviet Union. He returned to Spain determined to show that the Communist Party was more democratic than any democratic party, and to defy anyone to prove the contrary.

To be sure, there was opposition within the Party, and early rumors that he would be replaced, but most of the rumors were without consequence. Carrillo appears firmly in command, to the point of even being able to offer an *abrazo* to Fernando Claudin, the historian who along with scenarist Jorge Semprun was expelled from the Politburo in 1965 for objecting too strongly to its lack of revolutionary zeal. There is an anti-Carrillo current, both among

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intellectuals and working class members such as Marcelino Camacho, who still hold that the party is not taking advantage of the tensions, of the flux, even of the chaos that has accompanied the transition from fascism to democracy.

The leadership's answer to this has been that the situation was not chaotic; on the contrary, the government was proving far more astute during the transition than anyone had thought. In truth, the Left had been quite surprised by the rapid transition under the King and Premier Adolfo Suarez. As Franco had approached death in 1974–75, the Spanish opposition of Communists, Socialists and Christian Democrats had formed two principal coalitions, both adopting policies calling for a "democratic rupture" based on the notion that no authoritarian government had ever successfully liberalized itself. The coalitions believed there could be no post-Franco collaboration with the King and his government. As it happened, however, the King and Premier Suarez set out to do precisely what the Left said it could not, which forced the opposition to drop plans for a post-Franco rupture.

But there is more to Carrillo's policies than just what might be called "an objective analysis of the situation." In his new book, *Eurocommunism and the State,* Carrillo makes it quite clear that what he wants for Western Europe is a kind of regional West European socialism, incorporating the traditional values of Western culture and including alliances with all "progressive forces." Carrillo, the son of a Socialist and a former leader of the Spanish Socialist youth movement in the early 1930s, is out to obliterate the memories of 1921 and the communist-socialist schism that took place in almost every West European country. He goes farther than Berlinguer, not to mention Marchais, in adopting a long-range strategy that sees Western Europe at some future time as a great socialist brotherhood of liberalism, progressiveness and culture that has very little to do with what the East European communists may be doing.

It will be interesting to watch the Spanish and Portuguese Parties in the years ahead to see which one was right. For Cunhal, Carrillo is little more than a "renegade," and communist history will condemn him to oblivion. For Carrillo, who can invoke an analysis of history as well as Cunhal, it is the latter who remains wedded to the past. (Cunhal, by the way, made it quite clear why he was not at Madrid for the summit—he was not invited. In fact, he said, he learned that there would be a summit only shortly beforehand, on a plane trip to Rome for a bilateral meeting with the Italians.)

Both Spain and Portugal emerged from fascism with a strong longing for centrism and moderation. In Spain, all the polls have

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shown that the Spanish Left (i.e., the Communists and Socialists) would do well to capture 30 percent of the vote. Not only do memories linger of the Civil War, but Spanish regionalism is strong—particularly in Catalonia and Viscaya—and the labor unions are divided and relatively weak. The Communist-dominated Workers' Commissions still are the strongest labor force in the nation, but the Socialist and the Christian unions cannot be ignored. In any case, use of the labor weapon must be carefully measured, for the Spanish army has shown itself extremely sensitive to the Communist presence. And the army—not political factions—may well prove the decisive force in the evolution of Spanish democracy.

VI

The three parties came away from Madrid calling themselves Eurocommunists because they decided that, despite a certain geographical imprecision to the term, it demonstrates that West European communism will be different. Berlinguer put it best at Madrid: "What is being called Eurocommunism is the fruit of an elaboration that each of us has accomplished separately, taking into account the conditions of exploitation of the working class in each of our countries and of the workers' interests, and considering also what the developed countries of Western Europe have in common. It is not up to us to say whether this elaboration will also have an influence beyond Western Europe."

Much has been said about the Eurocommunists' failure to make a strong statement about human rights at Madrid. It has been noted that Giovanni Cervetti, member of the PCI's Secretariat, met with the Soviet leader Boris Ponomarev in Moscow ten days before the first preliminary Eurocommunist session was held in Madrid and five weeks before the summit; at that time there were reports that Moscow warned the PCI in no uncertain terms that there would be repercussions to any anti-Sovietism in Madrid. The Italians more than the French, it is said, put the brakes on Carrillo.

Yet it is doubtful that it was as simple as that. The signs are too clear that the Spanish did not want to create an open and needless rupture with Moscow. Even the French, who have more reason today than the Italians to proclaim a certain anti-Sovietism, say there was never any question of provoking Moscow. From Carrillo we know only what he said publicly at a Madrid press conference: "This meeting is not meant to be a challenge to anybody. . . . And contrary to some press reports, we are not defining ourselves by taking a negative position toward others."

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Though the three parties have grown comfortable with their new label, their attitudes on many subjects are far from identical. They have reached a close identity of views on how to come to power in Western Europe, and what the Left should be doing once in power. But there are rather important variations among them. Their application of "democratic centralism," or rigid discipline, is different.[2] The French Party believes in much stronger national centralization, both politically and economically, than the other two. The Italian Party is a stronger defender of the European Community. The Spaniards are the boldest in defending an identity of West European interests, of accepting a process that would lead to a reconciliation with the socialists, and they create a de facto new regional center or a third schism.

Eurocommunism must be considered one of the fruits of détente and of the Helsinki process. From a purely strategic point of view, it probably is "destabilizing," which explains much of the hostility emanating from both the United States and the Soviet Union. Nobody is sure where Eurocommunism may lead, whether it will ultimately prove more disturbing to Eastern Europe or to the Atlantic relationship. There is no reason at this point to suggest that détente itself might be jeopardized by Eurocommunism, for the Eurocommunists themselves appear to understand the need for prudence in foreign policy. They have described their aim as leading to a kind of "controlled disintegration" of the blocs over a long period of time. And each of them vigorously denies that it would ever favor policies that would allow Europe to fall under the hegemony of anybody, particularly the Soviet Union.

Inevitably one of these parties, if not all of them, will someday reap the harvest of its new policies. Probably it is best for everyone, and certainly for Western Europe, that the experiment be tried out before long, for the present feeling is one of waiting for the other shoe to drop. The systematic exclusion from government of the Left has contributed to the crises of the countries of Latin Europe. The policy of "vaccination" has not yet been put into operation. But one thing is certain—the policy of "quarantine" has not worked.

[2] As the Eurocommunists have moderated their foreign policy lines and taken a stronger position on human rights, the attacks against them from the socialists have centered on democratic centralism, which incarnates the lack of individual freedom within the party structure.

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Mort Rosenblum

REPORTING FROM THE THIRD WORLD

A popular melody has joined the reggae rhythms in Jamaican nightclubs; it is a song called, "The Foreign Press." In rich island dialect, the song accuses correspondents of besmirching Jamaica's good name with false reports throughout the world. It says that, between dispatches, reporters manage to frolic on the beach and in the nightspots, adding:"Why don't they write about that in the foreign press?"

It is no light-hearted calypso spoof. The wife of a prominent Jamaican cabinet minister told an American correspondent, with no trace of mirth: "You [reporters] don't know how you make us suffer with all your lies about communism and violence . . . and if you keep it up, the day will come that you will not be able to come here any more or you'll have your throat cut." Already Jamaica, like scores of developing countries, is loath to grant entry to foreign correspondents.

Leaders in the Third World, with new and growing confidence, are translating into action their frustration with international news coverage. Government criticism of the press is hardly new, but only recently have leaders acted so harshly on such a large scale. Reporters are banned, jailed, and, in some instances, tortured or shot. Dispatches are censored, and news sources are stringently muzzled. International news agency reports are controlled and foreign publications are seized. India, which prided itself on having a free press in the world's largest democracy, expelled five Americans and two British correspondents as part of a series of press restrictions which began in June 1975 and did not end until Prime Minister Indira Gandhi was voted out of office in March 1977. In Nigeria, where newsmen worked with relative freedom during the Biafra war, the only Western reporter still residing in the country is a cautious correspondent for Agence France-Presse. The last Reuters correspondent was put in a dugout canoe, without his passport, and headed toward neighboring Benin. The Ethiopian government recently expelled all three Western correspond-

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ents based in Addis Ababa, accusing them of "bias and distortion." In Argentina, when an Italian reporter told military government authorities that a mysterious security force commando appeared to be after him, the official advice was: "Try to stay away from your home."

An Associated Press censorship study for 1976, while giving no overall totals, describes a steady pattern of pressure on correspondents in many parts of the world. New measures have been taken to ban, censor or intimidate foreign reporters in many countries of the Middle East, Africa and Southeast Asia, as well as in several countries of Latin America.

This trend is the tip of a political ice floe which shows every sign of resisting efforts to melt it. It reflects not merely a lack of mutual understanding but rather fundamental conflicts among differing concepts of a government's role in society and of a people's right to be informed. While Western newsmen generally act on the assumption that a free press is vital to a well-governed nation, many Third World leaders maintain that the greater goal of national development requires them to subordinate the ideal of free expression. Development of their countries requires unity, they say, and the press focuses on divisions. The Soviet philosophy of a controlled press supports their position and thus complicates efforts to seek common ground.

Third World concern appears to have focused on two principal complaints, articulated in conference after conference:

- The Western press gives inadequate and superficial attention to the realities of developing countries, often infusing coverage with cultural bias. The traditional emphasis on the dramatic, the emotional and the amusing—the "coups and earthquakes" syndrome—is seen not only as unbalanced but also as detrimental to the development process.
- The Western monopoly on the distribution of news—whereby even stories written about one Third World country for distribution in another are reported and transmitted by international news agencies based in New York, London and Paris—amounts to neocolonialism and cultural domination.

There is certainly some justification for these complaints. Yet it is also true, as Western newsmen argue, that the methods by which many Third World governments now seek redress cause serious distortions in the news. In addition, current efforts to form alternative Third World press agencies could further interfere with the free flow of accurate news. On both sides, storms of rhetoric have

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confused the picture. Some of the most vehement detractors of Western reporting are themselves responsible for the imbalances they decry. And some Western news executives who protest the loudest commit the most blatant misrepresentations of Third World attitudes. Many on both sides, purposely or unwittingly, do not recognize how the problems of one are closely related to those of the other. Although it will not eliminate the real differences in interest, an increased and sincere attempt to achieve cooperation rather than conflict could help to lessen cultural misperceptions which serve neither the Western press nor the Third World.

II

In understanding the problems of Western coverage of the Third World, it is important to recognize that the international newsgathering system has severe limitations. What is commonly referred to as the world flow of information is more a series of trickles and spurts. News is moved across borders by surprisingly thin networks of correspondents for various types of news organizations with widely disparate purposes. Some correspondents, such as those working for television and most newspapers, report back to media in their own countries, and they approach the news from the viewpoint of specific readers and viewers. Others report to agencies which distribute their dispatches regionally or globally, or to internationally circulated magazines, and they attempt to achieve a more universal outlook, including details of interest to readers from many countries.

By far the largest distributors of information are the four Western-based global news agencies which provide separate reports for their home markets and for various regions in the rest of the world. The largest of these is The Associated Press, based in New York, with an annual budget of $100 million and a history dating back to 1848. The AP is a nonprofit cooperative owned by 1,350 member newspapers in the United States, with 3,500 subscribing radio and television stations. It sells its international news and photo services on a contract teleprinter basis to foreign newspapers and broadcasters with an estimated total audience of one billion people and deploys its staff and resources within the limits of its budget and according to the needs of its members. It has about 80 U.S.-based correspondents and bureau chiefs who are rotated among its overseas offices; it also has another 750 locally hired support personnel who assist the correspondents or who operate on their own in foreign bureaus unassisted by correspondents assigned from New York. Additionally, there are scores of

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"stringers," part-time reporters with other jobs, who might contribute fewer than a half-dozen stories a year from the smaller capitals and cities. Dispatches from all these reporters are handled in two ways: one department in New York edits and sometimes rewrites stories that might be of interest to domestic members, and another department edits and relays stories destined for foreign subscribers. Separate overseas wires, in a variety of languages, carry the major international stories as well as minor stories of interest to the particular regions served by the individual wire.

The other three global agencies work similarly, but each has its own characteristics. United Press International, which also has headquarters in New York, is commercially organized and must bring in enough income to cover its costs. World news coverage is expensive, UPI executives say, and occasional profits are hardly excessive. Reuters, based in London, is owned by British and some Commonwealth newspapers. It operates somewhat like the AP, but its home market is much smaller, and it has specially tailored regional services. For example, about 30,000 words daily are sent to Africa, designed for African media. Reuters' worldwide news operations are partly financed by earnings from a separate economic news service and from income earned by sharing its communications facilities with other news organizations. The fourth major global agency, Agence France-Presse, has extensive regional coverage, with 790 Paris-based and national newsmen outside of France. Directly and through contracts with national news agencies, AFP dispatches reach 12,000 newspapers. AFP, although officially autonomous, receives large government subscription payments, which allow it to maintain uneconomical bureaus and to provide its services cheaply throughout the Third World. However, some editors say they prefer to rely on the other three main agencies in some cases, particularly when French interests are involved.

All four major news agencies have a stated goal of objectivity, which is harmonious with their practical considerations. Thousands of newspapers and broadcasters with positions ranging from the radical Left to the extreme Right receive each of the four services. Neighboring countries with centuries of enmity all rely on them for world news. For example, their subscribers include government-controlled Arab media and conservative Israeli dailies. Each subscriber demands immediate rectification if it feels a story has been distorted.

Apart from the main agencies, there are more than 90 regional and national news agencies which operate in a variety of ways. TASS of the Soviet Union and Hsinhua of China distribute highly

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politicized reports to a large number of developed and developing countries. Agencies like West Germany's Deutsche Presse-Agentur (DPA), Italy's Agenzia Nazionale Stampa Associata (ANSA) and Japan's Kyoto compete with the four main agencies in many areas. And many national agencies of Third World countries maintain correspondents in neighboring and in European capitals. The largest of these is Tanjug of Yugoslavia which has 47 correspondents abroad, mostly in industrialized countries. Samachar of India also keeps a large international staff overseas. Some agencies, such as ARNA of Libya and MENA of Egypt, cover contiguous geopolitical regions. And some of the smaller ones, such as the Gabonese News Agency, do little more than distribute officially sanctioned information within a country of 500,000 inhabitants.

Besides the news agencies, some large newspapers and newspaper chains syndicate their correspondents' work. *The New York Times* News Service carries stories from *The Times* of London and the London *Observer* as well as dispatches from *New York Times* reporters. It has more than 450 subscribers—about five percent of the AP's total but a select group of influential papers—more than 250 of them in the United States. Among others, *The Washington Post* and *The Los Angeles Times* also offer a combined service drawing on their foreign correspondents.

While a number of Western papers, magazines and broadcast organizations also maintain correspondents abroad, the total is steadily dropping. Including salary, expenses and communications, the costs of maintaining a single reporter overseas for a year can be well over $100,000. Provisions of the Tax Reform Act of 1976 lowering the income tax exemptions for U.S. citizens living abroad have increased the costs: *The Chicago Daily News,* which for years had kept a permanent staff of resident and roving correspondents overseas, disbanded its foreign service at the end of 1976, attributing its action at least in part to the new law.

Accurate statistics on reporters abroad are not available, but a good indication of the decrease is found in comparing the Overseas Press Club (of New York) directory of correspondents for 1975 with that of previous years. It listed 429 full-time American correspondents abroad compared to 563 in 1969. Foreign national employees of U.S. media were listed at 247 compared to 366 in 1969. (Of the 1975 total, 54 percent were based in 19 European countries.) Even those totals are misleadingly high, since they include writers for specialized publications and some expatriates who retain accreditation from small newspapers for prestige purposes. Some areas are almost completely written off. The AP and UPI

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each has a single full-time correspondent, based in Nairobi, to cover all of black Africa north of Rhodesia; roving correspondents based elsewhere add to the news reports. Their stringers in other African capitals send little, and most are closely watched by their governments. Only a few news organizations keep correspondents in East or West Africa.

Some papers with few correspondents living abroad regularly send out reporters who travel. They vary widely in scope, and some of the best, like *The Christian Science Monitor,* have circulations which are small in relation to national readership. A number of major European and Japanese newspapers operate similarly, keeping a small group of correspondents based abroad with a regular staff of specialized reporters who make periodic visits to developing areas.

The larger newsmagazines also maintain their own foreign staffs overseas to send lengthy dispatches which are distilled by staff writers at home, combining correspondent reports with news agency material, information on file and domestic sources. In early 1977, *Time* listed 36 staff members in 17 foreign bureaus; *Newsweek,* 22 correspondents in 11 bureaus; and *U.S. News and World Report,* eight editors abroad. Additionally, each uses regular stringers who are paid according to their contribution.

The three U.S. television networks provide wide foreign coverage not only from crews based abroad but also from correspondents sent out from U.S. bureaus. Yet notwithstanding the enormous impact of television on the American public, Third World leaders seldom take into account television coverage because they do not normally see it. And few understand its import. Their quarrel is with the agencies, newspapers and magazines.

Whatever the talents of the men and women involved, a press corps of this size can only sample the news. Even *The New York Times,* with 33 of its own full-time correspondents and a wide range of news agencies to draw on, runs only about 14,000 words a day from all over the world. That is much more than the half-dozen foreign stories carried in most newspapers, but it involves careful selection and editing.

As a general rule, newspaper reporters, particularly the European ones, have greater leeway to interpret news events than do news agency correspondents. At the same time, newspaper correspondents normally have more space in which to discuss opposing sides of a sensitive issue. Both, however, are under great pressure to rush around covering major political events and disaster stories, whereas stories on development trends and social changes are

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regularly subject to delay. Because newspapers have only so much space and broadcasters have only so much air time, editors feel they must select what their audiences want, or they will lose the readers and viewers who keep them in business. News judgment rests on the potential impact and interest of stories rather than on any sense of international fair play. Even in the newspapers of most Third World countries, news items are predominantly from industrialized countries of the West and East, and stories from other developing countries often conflict.

Sometimes the process itself causes imbalances. Correspondents knew the military was planning to overthrow Isabel Perón in Argentina six months before the actual coup; the date was revised repeatedly. Many were afraid to leave Argentina to cover less dramatic stories for fear of missing the coup and finding the border closed. One newsmagazine reporter postponed a trip to Brazil a half-dozen times. "My boss thinks he's got the village idiot down here," he told friends. "But if I take off and the coup happens while I'm on the plane, I'll be looking for a job."

The smaller countries are squeezed into rapid trips during lulls between major stories in the larger countries. One Latin American scholar comments wryly: "I'm always amazed to see how news breaks in South America along the direct lines of the Braniff route." An assistant foreign editor of a major newspaper makes a similar point: "I am disturbed by the hit-and-miss technique which we must use . . . almost at the correspondent's whim. A reporter finally gets to a place and reports things as new. . . . I'm always reminded of the stars—the light left some years ago and we're just getting around to seeing it. It's misleading and I don't know what to do about it."

Because reporters tend to travel in packs, circumstances can focus far more attention on a particular event than it might ordinarily receive. Riots in Jamaica happened to coincide with a major International Monetary Fund meeting there in early 1975, so scores of foreign reporters were on hand to report them in chilling detail. Had there been no visiting correspondents, the local Jamaican stringers might not have seen fit to write, and the disturbance might have been a tree falling unheard in a forest.

The situation is similar, or worse, in Africa and Asia. A crisis in southern Africa (or a war in Vietnam) draws correspondents in droves, while the rest of the continent is neglected. Today, wide areas in both are rarely visited; for example, the small island nations of the Pacific and Indian Oceans are all but completely forgotten.

A series of other difficulties and limitations affect foreign re-

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porting. News organizations tend to send young inexperienced reporters to the Third World, transferring them to larger bureaus in industrialized countries as they gain seasoning. Correspondents frequently cannot speak the language of the country they are covering, and translators, if available, are rarely adequate. Unfamiliarity with baffling local customs and thought processes can be dangerously misleading. Under such circumstances, even the best have difficulty, and some reporters working abroad are simply not capable of untangling complicated situations and presenting them clearly to faraway readers. Correspondents are seldom specialists, and a reporter may write about politics, table tennis, budget deficits and traffic accidents in the same afternoon.

Inadvertent mistakes are also made in editing, rewriting, translating and transmitting. Last year a young Chilean trainee at UPI was practicing on a teletype machine in Bogotá, and he made up an urgent story that President Alfonso López Michelsen had been assassinated. Through a technical error, the message went to New York and was relayed on the news wire in English and Spanish. The Spanish news agency, EFE, which has an accord with UPI to use its dispatches, relayed the story under its own logotype, without checking it. Although the story was eliminated quickly and UPI officials immediately apologized and explained what had happened, the President charged that he was a victim of an international plot.

Local stringers are generally poorly paid and have little motivation to provide more than a perfunctory relay of local newspaper reports. Because they may also be government employees, they are sometimes subject to extreme pressures, which often means one-sided or distorted dispatches. In addition, the scarcity of space in print or on the air provides a constant goad to reporters to portray the stories they are covering in the most dramatic light possible. This is particularly true with newsmagazines and television networks. Generally, foreign correspondents are responsible, with a keen sense of professional ethics, but there have been cases where some have exaggerated and even invented facts in order to lend strength to their dispatches.

Space limitations have another distorting effect. Correspondents often must use such shorthand terms as "right-wing dictatorship" and "pro-Peking" without further explanation, raising more questions then they answer. To the informed, and to many readers in the countries from which they are reporting, such meaningless labels and glib generalities may be seen as superficial and even insulting.

Finally, however hard a correspondent may try to exercise bal-

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ance and objectivity, he is the prisoner of his own value system in judging a situation. Narinder Aggarwala, an Indian journalist working with the United Nations, made this point in the January issue of *The Interdependent,* published by the United Nations Association:

> When Third World leaders criticize the Western press for biased and distorted reporting, they are not, generally speaking, questioning the factual accuracy of Western news agencies or their correspondents. What they feel chagrined about is the lack of a Third World perspective, as well as an appreciation of Third World information needs, in the news disseminated by the Western agencies.

III

The efforts of many Third World governments to inject their perspectives into Western press coverage have in most cases compounded the problem. Many of them treat the Western press as a monolithic and hostile entity which, if properly controlled or cajoled, can be induced to act in a certain way. This philosophy normally leads to frustration and increased bitterness. The sectors of the press which were hostile to these regimes at the outset simply grow more hostile, and have more to criticize, when controls are imposed. And the sympathetic sectors are either prevented from saying anything—or are converted to hostility because of the measures taken.

Methods used to pressure correspondents vary widely. John Saar of *The Washington Post* made a trip to South Korea without difficulty, but no one would talk to him, at any level, because the *Post* had broken the story about questionable Korean lobbying in the United States. India cut the telephone and teleprinter lines of several foreign agencies in New Delhi but allowed them to use their neighbors' communications to send their material. Sometimes reporters are chided gently by low-level officials; sometimes they are obliquely threatened with death.

One common practice has been to expel a free-lance reporter with no major backing as an example to regular staff correspondents. However, after several countries recently expelled correspondents of major news organizations with only lukewarm response, there appeared to be a growing awareness that it is not so difficult to push around the foreign press. Organizations are often reluctant to ask the State Department to join in protesting expulsions because they want to keep themselves separate from government. In some cases, news executives want to keep peace with the government which expelled their correspondent, to make it easier to send a new one. Others, from inertia or lack of a guiding policy, just let the incident go.

The easiest way for a country to control coverage, of course, is

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simply to deny access. Ronald Koven, foreign editor of *The Washington Post,* negotiated for almost a year to get correspondent David Ottaway into Somalia. "We have the feeling that the Third World is closing down on us, little by little, almost on a monthly basis," Koven said in one of a series of personal interviews I conducted on this subject. "Visas for countries at peace with the United States are sometimes very difficult to get." The *Post*'s widely respected Africa staff is a good example of the problem. Ottaway, along with other reporters, was expelled from Ethiopia, where he had gone when barred from Kenya. Like others, he had serious difficulty obtaining visas to a number of countries. The *Post*'s Robin Wright avoids Angola because she was accused of links with the mercenaries, but few reporters get into Angola anyway. Koven says he does not send reporters to Uganda, even if permitted, for fear of their safety. (The problem is not limited to black Africa. It took years for Jim Hoagland of the *Post* to be allowed back into South Africa after doing his series from there, which won the 1971 Pulitzer Prize.)

When newsmen cannot get into a country, they must write about it from the outside, often relying on questionable dissident sources with little chance to balance their reports with remarks from authorized spokesmen, and the result is likely to cause even more bitterness from the leaders of that country.

The general condition of misunderstanding can increase particular difficulties. *The New York Times* was allowed to send a correspondent, John Burns, into Mozambique for a balanced appraisal of the newly independent country. But officials of another branch of government arrested him and held him for several days. As a *Times* editor explained it, the officials had never heard of *The New York Times*; they thought Burns worked for *Time* magazine, with which they had a quarrel. (In fact, newsmagazines usually come under heavier fire than newspapers because they are often circulated in the countries they cover. The tight format, with emphasis on the more dramatic details which are of particular interest to a foreign reader, often upsets Third World authorities.)

As noted, government manipulation often backfires—but not always. For dramatic examples of how different types of manipulation, combined with the traditional limitations of international reporting, can result in grave distortions for the reader, compare the coverage of the 1973 military takeover in Chile and the 1976 coup d'état against Isabel Perón in neighboring Argentina. In both instances, a well-prepared, professional press corps sought to convey realities to American readers. Yet reporting from the two countries was so shaped by differing government strictures that it is

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still extremely difficult to make judgments about one in the light of the other.

Although there were fundamental political differences between the two coups, the basic facts were the same—a military junta overturned a civilian president amid expectations of some internal and international resistance. In the process, Chile—where the new rulers restricted coverage and exerted tight control over reporters—emerged with a much harsher image than Argentina, where the coup leaders kept good relations with the press but still controlled the flow of information by covering up their involvement rather than placing fetters on reporters.

The coup against Salvador Allende was forceful and bloody, masked by secrecy and launched by surprise. The junta's plan was to restore quickly what officers considered to be a normal balance, eliminating entrenched leftist control, before facing the world. They shut down communications, imposed curfews and controls, and refused entry to reporters—and almost everyone else—for nearly two weeks. The executions and widespread repression were neither admitted nor convincingly denied, so that the atmosphere was perfect for the inevitable rumors which follow any such upheaval. The few correspondents in Santiago at the time managed to send only brief dispatches under a severe after-the-fact censorship which some called the "file now, die later" plan. Meanwhile, scores of correspondents hovered at the borders in Argentina, interviewing everyone in sight who might have an inkling about what was going on. Although many exercised careful judgment and balance, others relayed far-fetched rumors of resistance columns and acts of mass genocide.

The true picture was bad enough, but in addition, wildly exaggerated death figures were published around the world. The new government gained an immediate and lasting reputation for butchery; tales of martyrs and archvillains passed into history. By the time the borders opened, and reporters could see for themselves what was happening, most of the world had made up its mind about Chile.

At the same time, Chilean exiles and sympathizers around the world pressed intense campaigns against the military government, and their charges could not easily be refuted by independent newsmen because few were allowed in. As it turned out, much of the human rights reporting from inside Chile—little as there was—was basically solid because the junta allowed two major sources to operate with some freedom: the Church and the courts. High-level Church leaders substantiated individual charges of disappearance, torture and execution. They made case studies and assembled

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overall statistics, making both available to newsmen. Also, Chilean courts accepted habeas corpus writs from relatives of missing persons and, because court records were public, reporters could find well-documented direct accounts of alleged abuses.

When the Argentine military decided to act almost three years later, planners studied the Chilean experience carefully. Selected correspondents and local reporters were kept informed on the progress of coup plans to an almost ludicrous degree. Officers assured the press that the transition would be smooth, bloodless and fast. Privately, however, several generals were more candid. "There'll be killing, all right—you just won't see it . . . ," one told friends. "Bodies will turn up, but they won't be linked to us. We learned that from Chile."

The coup, as promised, went off without a hitch. Communications were not disturbed, and correspondents were not censored. The airport was closed briefly for security reasons, but there had been so much warning that most correspondents were already in anyway. The immediate image of the new government was one of moderation and restraint. That a large number of leftists were abducted, tortured and executed was something reporters did not learn about until later. And when they did, they could not prove that those responsible were directly linked to the government, however obvious the connection. Correspondents also knew that, although there were no official curbs, they might fall victim to the same mysterious right-wing death squads blamed for the widespread killings of leftists.

Since readers in the United States assumed that correspondents were working freely, and they were not told of massacres by the government, they assumed that the government was indeed moderate. Thus, as in Chile, though with quite a different result, the world swiftly made up its mind about the Argentine junta. By the time desperate relatives told of missing persons, and qualified sources described how bodies were being dumped at sea from helicopters, interest in the story had waned.

In Argentina, the government saw to it that sources were few. Contrary to the Chilean situation, Church officials said little or nothing, and some Church sources admitted intimidation. Court records were closed. Local newspapers were under strict military control. "Sure, I feel guilty, but what could we do?" asked one senior correspondent of a major news agency at the end of 1976. "We say that 12 guerrillas were killed while raiding a police post. That's the police version, and it's all we have. We can't say that's obvious bull even if we think it is. And then when some mother calls up and says, 'How could my son have attacked a police station

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on Tuesday when police arrested him on Monday night?' what do you do?"

Viewed from a longer perspective, there were strong similarities in the way security forces in the government's pay dealt with suspected left-wing activists in Chile and Argentina. Both used widespread murder, torture and arbitrary arrest. However, in Argentina, where reporters were allowed to operate as freely as their courage allowed, but with few available sources, no direct link was established to the government. In Chile, where correspondents were barred and then controlled, but where information could be found, a clear-cut policy of government involvement in human rights abuses was reported from the first days of the coup.

"We applied the same skills and energy toward reporting Chile and Argentina," remarks one well-known correspondent for a major U.S. organization, "and Chile came out much worse. It may be Chile's fault, and it may be because the Argentines were clever. But the reader can't be expected to know the background. He is counting on us to tell it straight, no matter what."

IV

In addition to individual efforts on the part of Third World governments to manipulate the Western press, Third World leaders have been planning concerted strategies to increase their control over the flow of information.

An extreme move toward press restriction was put forward in a Soviet-sponsored draft resolution at the biennial UNESCO conference late last year in Nairobi. The key sentence in the proposed text—"States are responsible for the activities in the international sphere of all mass media under their jurisdiction"—would have endorsed measures taken against correspondents not only for their own actions inside a given country but also for the actions of their organizations elsewhere. Where authorities have been reluctant to expel reporters or to institute press controls for fear of damaging their international reputation, the sanction of an international body like UNESCO could make a significant difference.

At Nairobi, the resolution was tabled by a vote of 78 to 15, with six abstentions, after active campaigning by Western officials and news executives. But the Soviet Union is expected to continue pushing the issue, and there are varying forms of support from a wide sector of the nonaligned nations. Indeed, while debate was focused on this article, the conference passed without comment several measures which constitute a UNESCO blessing for increased state control of media and the movement of news.

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At an April meeting in Florence, convened to further the Nairobi discussions, exchanges were sometimes heated and bitter. UNESCO's Assistant Director-General, Jacques Rigaud, identified a major point of contention: "Decolonization must be carried to its conclusion in the minds of men. It is uncomfortable to have to admit that supposedly universal values sometimes conceal a hard core of self-interest." He added later that values that had "for so long given a certain part of the world a clear conscience look different and are different if one is oppressed or well-endowed, developed or developing, or in danger of never developing."

The new feeling was evident in recent remarks by President Ferdinand Marcos of the Philippines, where until recent years the press was extraordinarily free. Marcos told the Philippine Broadcasters Association that there was freedom of speech and freedom of the press in the Philippines just as there was in the Western countries. "The only difference is . . . our policy requires that the media wholly participate in the government . . . as committed agents of the government . . . for development."

The Indonesian press director, Soekarno, was more specific in an interview with *The Washington Post* in March: "These critical reports you've all been making lately hamper our speed of development. They draw the attention of the people away from development to other issues which creates frustration. . . . if they [Western reporters] employ the Western tradition of hitting issues face-on, they will not achieve their mission [of creating better government]. They must follow the slower, more indirect Indonesian way, or else our government will ban foreign journalists and will ignore their reports." Indonesian Attorney General Ali Said earlier told local editors to stop printing Western news reports on the country. "Let them go to hell," he said.

Leonard Sussman of Freedom House in New York has labeled this concept "developmental journalism." Its thesis is that control of news is not only defensible but essential. Information itself and the means to transmit it are tools of development. Since governments must direct all resources toward the principal goal of development, any reporting that is critical or disruptive might hamper their progress. Governments, it is maintained, must focus attention on their achievements and protect their developing economies from the exposure of weaknesses; critical press coverage might dampen their people's spirits and lessen their chances for world sympathy.

Proponents of a more positive type of developmental journalism say that it is necessary for countries to share useful experiences and

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ideas which are not now adequately covered. Some liken this kind of journalism to the sort of reporting found in feature sections of Western papers, where readers in Dallas can learn how troublesome community problems were solved in Seattle or Miami. A low-cost housing program in Singapore could be a valuable model for dozens of other nations.

In order to share this sort of information, and to eliminate what many consider to be a Western bias in the information now available, a large number of Third World countries support expanding their own news facilities. The most significant steps in this direction were taken in mid-1976 with a ministerial meeting of 58 nonaligned nations in New Delhi, followed by a summit in Colombo. The summit approved a resolution establishing a Third World news pool as a mechanism to centralize and distribute news items from developing countries around the world.

The then Indian Prime Minister Indira Gandhi set the tone for the meetings, saying:

> The media of the powerful countries want to depict the governments of their erstwhile colonies as inept and corrupt and their people as yearning for the good old days. Leaders who uphold their national interests and resist the blandishments of multinational corporations and agencies are denigrated and their images falsified in every conceivable way. . . . We want to hear Africans on events in Africa. You should similarly be able to get an Indian explanation of events in India.

The pool is already functioning, to a certain extent, with main relay points in Yugoslavia and India. (The new Indian government is taking a less militant stance, but there are other active supporters.) Under its constitution, any nonaligned nation can volunteer to collect and disseminate news from and to other countries provided it pays all reception and relay costs and does not interfere with the content of the incoming dispatches. Tanjug of Yugoslavia has been doing this on its own since January 1975, using four 38,000-watt transmitters outside of Belgrade which were reported to be part of a $13-million expansion program. Similarly, any nation can transmit its news for relay, and can receive relayed news, provided it pays all of its own costs. The framers of the pool arrangement encouraged countries to form national news agencies, if they had not already done so, to facilitate the exchange of news.

The Nairobi UNESCO conference later in 1976 endorsed the pool idea as part of a compromise agreement to defeat the Soviet proposal. It was also agreed that $130,000 would be spent to study means of efficient pool operation. Apart from the plan approved

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at Colombo, a number of countries are working toward regional pools, such as a Pan African news agency advocated by Zaïre.

At each international conference when news pools are discussed, numerous speakers repeatedly declare that their aim is not to supplant the major global agencies but rather to supplement them. According to this widely held moderate position, Western correspondents would not be affected by the changes developing countries advocate. However, an African ambassador to UNESCO bluntly expressed a more radical view: "We don't want Western journalists in our countries. They should take their news from us." The difference is crucial.

V

Western responses to Third World complaints and controls range from defensive antagonism to efforts at expanding cooperation. While there is some sympathy for the benign type of comparative developmental journalism, the more radical variant is rejected out of hand by most Western journalists.

"In part the attacks [on the Western press] are justified because attention to events is spasmodic and inadequate," observes Harvey Stockwin, a veteran correspondent for the *Far Eastern Economic Review*. "But they stem in large part from the fact that the Western press is the only one telling leaders what they don't want to hear." Western hostility to Third World positions revolves around that basic point: many leaders use such devices as news pools and developmental journalism as a convenient means to muzzle criticism and hide their own shortcomings.

Actual practice has shown this to be a justifiable concern. Where countries have refused access to correspondents but have provided a steady stream of government-vetted information by radio and by national news agencies, coverage has tended to be relatively uncritical and, by lack of balance, misleadingly favorable. This is particularly true in countries where there is not sufficient interest for reporters to seek out exiled opponents or neutral travelers to provide the needed balance.

Since there is some form of government control, subsidy or guidance in almost every national news agency of the Third World, it would hardly be reasonable to expect completely balanced reporting on a voluntary basis. No government anywhere enjoys energetic probing by the press. Doubtless, Ron Zeigler would have been delighted to have had the final word when pronouncing the Watergate break-in a "third-rate burglary." Simple human nature makes it very difficult for any person to provide an accurate

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picture of himself. As a retired UPI executive, Roger Tatarian, noted (in a conference paper for the Edward R. Murrow Center at the Fletcher School of Law and Diplomacy), according to Mrs. Gandhi's definition, the Third World would have had to rely on a national agency controlled by Idi Amin Dada for facts about the Israeli Entebbe raid.

At the UNESCO conference, Western newsmen were vehement in their opposition to the Soviet proposal. George Beebe of *The Miami Herald,* chairman of the World Press Freedom Committee, told reporters in Nairobi that such curbs as the Soviet proposal would be "tragic." He said: "It is essential that we keep communication lines open in this rapidly changing world."

After the April conference in Florence, Beebe took a harder stance in a column for the *Herald.* He wrote: "The UNESCO colloquium . . . convinced delegates from the West that we are fast losing the global war in the field of communications. What was billed as a conference on the 'Free and Balanced Flow of Information,' largely was a series of attacks on the U.S. news agencies and the Western media. This was led by the communists and leftists who exert a great influence on UNESCO." Beebe then added: "There were few newspapermen of stature from over the world. Instead there was a surplus of government officials, news agency representatives and several young radicals . . . . It was the consensus of the Western delegates that the most appropriate word for summarizing the future media outlook is 'frightening'."

Some contend that obstructing the flow of information violates the Universal Declaration of Human Rights.

Speaking for their Western readership, the newsmen make the point that if developed nations are to work cooperatively with developing nations in a new international economic order, they cannot do so in ignorance. As Philip M. Foisie of *The Washington Post* puts it: "We feel it is very important that the American reader and voter is informed by professionals about what is going on in other countries. As one example, if American voters are to spend tax dollars, they have a right to know what is going on."

While most admit inadequacies in their reportage, Western journalists also defend the job they are able to do under the circumstances. Executives emphatically deny any intentional bias or any form of conspiracy against anyone. Gerald Long, managing director of Reuters, noted in an interview that complaints often are made as a result of mistaken information about how news organizations work. He gave the example of an unnamed American ambassador in Africa who once charged that Reuters was guilty of worse distortion than TASS in reporting news from the United

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States because it transmitted only stories about racial strife. The ambassador was seeing only those few dispatches selected for publication by the local newspapers, a fraction of the complete Reuters report from the United States.

On the general subject, Long commented:

> We are sometimes accused of not doing what we have not set out to do. How can you give a complete picture of India, in, say, 3,000 words a day? No, we're not and we can't. . . . We must operate on the principle of news as exception. Reuters tries to give a fair picture, a rounded picture, but we can only send a limited amount, and we must be selective.

With regard to cultural bias, Westerners also point out that most agencies employ nationals to write about their own countries, working in their own languages from the point of view of their own culture. Although most of what Uruguayans read about neighboring Argentina is from the global agencies, for example, the dispatches are almost all written originally in Spanish by Argentines with the idea in mind that they would be read largely by other Latin Americans.

The idea that a Third World news pool might solve some of these problems has been greeted by Western newsmen with a mixture of wariness, sympathy and skepticism. Most global news agency executives say they have no objection to a Third World pool if the idea is only to supplement the existing reports and not to hamper correspondents' work or to close off markets. Stanley M. Swinton, Vice President and Director of World Services for the AP, phrased his personal view this way:

> My basic theory is the more news the better so long as news from one source is not permitted to squeeze out news from international agencies in a twisted Gresham's Law way. . . . For the international news agencies, it is self-defeating to declare war on the Third World's efforts to intramurally distribute more information.

And according to a disinterested observer, Dr. Jacques Freymond, the Swiss Director of the Geneva Institute for Graduate Studies and former Vice President of the International Committee of the Red Cross:

> This is a normal process of evolution of the Third World. We have been too ethnocentric in our reporting of things. Just as in early France all roads led to the capital in spoke and hub patterns with no connecting links, so it is with the patterns of reporting from these countries. If we resist their doing this [forming a pool], we will force them into an either/or situation; we will force the opposite of what we would want. At the same time, we should try to maintain our world agencies to offer the presence of a pluralistic solution.

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Some agencies have offered advice and equipment to new nonaligned agencies, and some retired executives have said they might be available as consultants. In private, however, Western experts generally agree that internal ideological differences, political rivalries and technical difficulties make it unlikely that any wide-based Third World pool would be functioning effectively soon. In fact, a number of eminent Third World journalists express similar skepticism.

For many, the limited response to Tanjug's efforts has shown that even sympathetic government-controlled papers do not want unwieldy streams of government press releases from other Third World countries unless there is some actual news value.Tanjug relays several hours of pool material daily, but little is used. And if the dispatches touch on the sort of sensitive political and economic issues that are of interest beyond national borders, they are often incomplete and unreliable. Also, many Third World leaders are reluctant to exchange domination by the international agencies for domination by a Third World agency. Already a rivalry has developed between Tanjug and Samachar of India for leadership in the pool, and this is widely seen as evidence that some larger Third World countries want to use the pool as a means to exert their own political influence.

"In a river, there are big fish and small fish, and the small fish must beware," observes Elebe Ma Ekonzo, director general of the Zaïre Press Agency and former ambassador to Belgium. Elebe prefers smaller regional groupings such as the Pan African agency, but even that, he said in an interview, could take years to organize because of the divisive factors at work.

VI

Obviously, there are no simple solutions to the basic conflicts underlying the Western and Third World approaches to the role of the press. Extremists on both sides must realize that some positions are virtually irreconcilable, and if they are concerned with an improvement they must seek some form of constructive compromise. This is complicated by the character of opposing forces. "Third World" is a convenient term, but it describes little. It covers scores of countries, each with its own national interests and policies. Similarly, there is no common position among news organizations of a single country, much less among all Western countries. Individual editors may become more sensitive, but they are not likely to subscribe to any overall code. With this in mind, there are specific areas where progress might be made.

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—Both sides should drop politicized hyperbole and take a reasoned look at realities. At the working level, many of the goals passionately espoused at international meetings were realized long ago. Some are preposterously expensive and impractical. Disinterested experts could compile basic data showing how national and international agencies are already exchanging news, how correspondents operate and what they write, what the news media in developed and developing countries actually use, and what technical and organizational difficulties need to be overcome for further cooperation. A country-by-country survey could detail working conditions of correspondents and the flow of information, including visa restrictions and censorship rules. International discussion should include professional journalists as well as—or instead of—ideology-minded civil servants. Criticisms should be specific, citing particularly objectionable dispatches rather than merely putting forth general ideological condemnations.

—On the basis of realistic information, proponents of the various viewpoints should discuss means of accord and cooperation in private meetings. Such working level sessions as the Tunis conference in November 1976 between European and Arab agencies can provide the means for exchanging criticism and suggestions while preventing frustrations from turning into hostility. There are already scores of joint accords among large and small agencies to share their reporting, and these could be built into a more complete and workable international network.

—A significant Western contribution could be made in several areas. A number of leading American publishers and broadcasters have organized the World Press Freedom Development Committee—which plans to take in news executives from elsewhere in the world—to encourage constructive cooperation. The initial proposal is to raise $1 million for several programs, including training seminars to acquaint Third World journalists with Western methods, visits by foreign journalists to American professional meetings, and trips by Western experts to provide technical assistance. The Committee can also help send Third World journalists to Western universities. There are other possibilities. Although no agency or news organization has funds for widescale training, governments could contribute jointly to an organization which could ad-

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minister transnational training programs. Cross-cultural training, it should be noted, has limitations and dangers. Sometimes journalists may be frustrated in trying to apply the techniques of a free press in countries where there is government control of information. But a higher level of competence across borders can contribute significantly to future understanding.

—Finally, Third World authorities must be persuaded to see for themselves that their interests are enhanced more by cooperating with the Western press than by fighting it. Editors and officials should use every opportunity to demonstrate that Western reporting practices do not automatically mean hostility and conspiracy. And, in cases where pressure is applied, they should protest vigorously at every possible level. News organizations can use more imagination to find alternative sources of information when borders are closed. If Third World leaders can be shown that access to news will be defended—and that all countries will be covered whether or not reporters are allowed to enter—they are likely to be more reluctant to attempt to manage news. Although much can be gained by improving Western reporting and paying more attention to Third World viewpoints, Western editors must defend the right to report.

These measures are at least a beginning. Practical cooperation and Western defense of free-flowing information may not resolve the basic conflict, but they will go a long way toward ensuring that Americans, Argentines, and Angolans alike will be more accurately informed about what is happening in their world.

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Lloyd I. Rudolph
Susanne Hoeber Rudolph

INDIA'S ELECTION: BACKING INTO THE FUTURE

Rarely has a country experienced so curious and kaleidoscopic a set of political changes as India since 1975. No one is very surprised when a developing nation turns authoritarian. The complexity of modernization itself seems sufficient explanation, if not justification. But a developing country whose authoritarian ruler reveals herself to be genuinely ambivalent about liberal and authoritarian strategies—who chooses to legitimize her position through an honest election and accepts her ensuing defeat with grace—deserves our attention.

When Indira Gandhi's Congress Party government was defeated in March by a loose coalition under the umbrella of the Janata Party, India's repudiation of an authoritarian regime was in stunning contrast to the ways in which similar regimes in Portugal, Spain and Greece were changed. What calculations led to the election? What led to its extraordinary outcome? What does the reversal of authoritarian rule bode for the future, not only for the policies of the new government but also for the structure of the political system? And what, if anything, will remain of the innovation and repression of those two years that have become part of history?

II

Why the election? First, Indira Gandhi was extraordinarily sensitive to charges at home and abroad that in placing India under emergency rule she had betrayed democracy, the legacy left by Mahatma Gandhi and her father, Jawaharlal Nehru. The suppression of dissent—particularly through the muzzling of the lively Indian press and detention of political opponents—and the pro-

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mulgation of a body of laws legitimizing authoritarian rule gave her critics ample grounds for their case against her. She called for an election in part to give the lie to such allegations, to maintain the credibility of her claim to rule constitutionally and legally as well as democratically. She had taken care to maintain the form if not the spirit of the constitution, a tactic that had the great virtue of legitimizing her authority with the army, the police, and the civil service. The regime might be more closed, less competitive, more authoritarian than the spirit of the constitution and conventional rules of the game allowed, but making emergency rule permanent, substituting repression and only repression for electoral mandates as the basis for obedience, was not an option she could lightly entertain or easily maintain.

Mrs. Gandhi had backed away from a draft constitutional "reform," circulated in the fall of 1975, that would have instituted a presidential form of government with vast powers concentrated in the executive's hands. The reform would have subordinated the judiciary to the executive, made fundamental rights nonjusticiable, increased the prevailing subordination of the parliament to the executive, greatly increased administrative discretion by removing administrative actions from judicial review, and given the executive the power to ban "anti-national" and "anti-social" opposition parties and organizations. Eschewing so drastic a solution, she turned instead to the 42nd amendment, whose 59 clauses gave constitutional sanction to the leading ordinances and legislative acts of the emergency period. Having thus entrenched the "hard state," Mrs. Gandhi thought she could safely go to the people for a fresh mandate, that it would validate these political and economic changes and entitle her to speak for another six years for the people and for national objectives.

Mrs. Gandhi also wanted to use the election to cash in on what her party spokesmen like to call the "gains of the emergency." Before she called the emergency, on June 26, 1975, her position had been extraordinarily vulnerable. The "Indira wave" of 1971 and 1972 had receded; several by-elections were lost, including one seat which had been in Congress Party hands since the first general election in 1952. Jayaprakash ("J.P.") Narayan's movement had brought government in the state of Bihar to a standstill, while massive rallies in Delhi showed his support there and by implication in urban and town settings throughout northern India. In the state assembly election in Gujarat, a coalition led by the Janata Party was about to turn out a Congress government.

Even within the Congress parliamentary party itself, Mrs. Gan-

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dhi's support had contracted and softened before the emergency. After June 12, 1975, when the Allahabad (Uttar Pradesh) High Court held that she was guilty of corrupt electoral practices, a plan to elect a temporary prime minister who would leave office once Mrs. Gandhi had straightened out her legal difficulties aborted when Jagjivan Ram, who, it is said, controlled 60 to 80 MPs, and the J.P. faction of the Congress, who were said to number at least 40, refused to go along.

The emergency gave Mrs. Gandhi 18 months to reverse the political deterioration. In January 1977, she thought she had succeeded. Although the crest of the wave of political gains from the emergency had broken, the political tide appeared still to be high. Before it receded, it seemed expedient to capitalize on the apparently favorable environment. Although prices were rising again and unemployment was up, volatile groups such as organized labor, students and middle- and lower-level government servants seemed to be compliant, or at least cowed by the repressive measures and policy initiatives taken under the emergency. INTUC, the Congress labor union, had made large inroads into the strongholds of trade unions affiliated with opposition parties. New "apex" bodies at the state and national level seemed to have brought producer interests, professional associations, writers and intellectuals, and the press under the influence or control of governmental bodies headed by bureaucrats or party functionaries. Implementation committees at the district level appeared to have replaced or subsumed local government bodies and party organizations.

But there was more to the January 1977 decision to call an election and to the battle over who was saving and who was savaging democracy: that was the Sanjay factor. It became increasingly clear to the public that Mrs. Gandhi's son Sanjay had aspirations for national leadership and that these were being encouraged and legitimized by his mother's statements and actions. At an All-India Youth Congress session in November 1976 in Gauhati, Assam, Sanjay Gandhi announced that his Youth Congress would establish organizations in the 6,000 blocks that constitute the basic administrative units of India's 22 states. At the subsequent meeting of the Indian National Congress some days later, Mrs. Gandhi criticized the party for its sluggishness, apathy and ineptitude and held up for emulation the vigor, ideas and leaders of the Youth Congress.

Then in February 1977, it was widely alleged that the allocation of "tickets" for parlimentary seats would have allotted as many as 50 percent of the 542 seats to followers of Sanjay Gandhi. Thus

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Sanjay, and not the Congress leaders, would fall heir to the Congress' electoral victory. Presumably this scenario was what mother and son had in mind when the election was called. Sanjay's five-point program (which was consolidated with the 20 points of his mother as the 25-point program) and his efforts to displace or intimidate state chief ministers and national ministers unwilling to get on board were to be consummated in a post-election scenario that placed him in a high government or party office. This planned outcome was signaled not only by Sanjay Gandhi's moves to establish himself in the Congress Party but also by the increasing degree to which Congress policy moved in a rightist direction. Dramatic evidence of this move was the break with the Communist Party of India (CPI), whose policies and bona fides were repudiated and denied.

III

The resignation of Congress leader Jagjivan Ram in February, two weeks after the electoral campaign had officially begun, revealed starkly the elements of the struggle that had become evident in November. Triggered by the impending allocation of "tickets," Ram's defection, and subsequent alliance with the Janata opposition led by Morarji Desai, dramatized the restoration of the old rules of the game. Until that point, Mrs. Gandhi and her supporters had apparently mistaken the overt compliance begot of repression and opportunism for support and legitimacy and had switched back to the language and rules of competitive democracy without grasping their potential implications for electoral behavior. As the campaign progressed, and it became increasingly apparent that dissent in the press, in speech, and in action would not be punished, organized interests and ordinary citizens came to accept the validity of the language and rule switch. In the states most affected by the excesses of the emergency's programs, anger, which lurked below the surface, displaced fear. On polling day, citizens poured out to cast their ballots against the indignities and disenfranchisements they had borne but resented.

By the last two weeks of the campaign there were abundant signs that the Congress Party was in trouble, even that it might lose, but nobody anticipated the magnitude of the opposition victory. In the north, the Janata Party gained virtually a clean sweep.[1] With its allies among regional and minor parties, Janata (and allies) were

[1] The Janata took all the seats in Uttar Pradesh (85), Bihar (54), Haryana (10), Himachal Pradesh (3), and Delhi (7), and all but one in Rajasthan (24) and Madhya Pradesh (37).

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returned with a parliamentary majority of 331 of 542 seats. (Janata alone captured 309 seats.) Its share of the vote, 43 percent, paralleled the Congress' vote in the five previous general elections and, with its allies, it probably surpassed the Congress' best showing in 1957 (47.8 percent). In the states in which it swept all or all but one of the seats, the Janata's vote share ranged between 58 and 70 percent, shattering though not wiping out Congress support.

Because the Congress did well only in the south, winning 92 of its 153 seats in the four southern states,[2] while the Janata's strength lay in the north, some have argued that the election polarized India, leaving the government in the hands of the northerners and the opposition in the hands of the southerners. The impression was sufficiently powerful for Prime Minister Morarji Desai to take note of it in Parliament by assuring the south that it was not orphaned and that it would receive adequate attention and equal treatment. However, the north-south polarization has been stressed more than the actual division of votes would justify. Janata and Congress dominance respectively affect mainly five northern and two southern states. Other large states—two western, two southern and three eastern—either had less one-sided outcomes or were subject to the influence of regional parties. Overall, the Congress' share of the vote declined 10 percent from 1971, and the Janata (aggregating the 1971 vote of its four constituent parties) gained 18 percent.[3]

The reasons for Mrs. Gandhi's loss may become clearer as Indian political scientists, out of commission for some years, get back to work, sift the data, and give us trans-impressionist interpretations. But one can do a good deal in the meantime. Mrs. Gandhi lost because Jagjivan Ram's resignation broke some spell; because many of her programs—and particularly the vasectomy campaign—backfired; because the powers of incumbency, lavishly invoked by state governments in the last weeks of the campaign, had no effect; because she abandoned her faithful allies, particularly the Communist Party of India; and because she lost the support of

[2] In two of the four southern states, Andhra Pradesh and Karnataka, the Congress won 41 (of 42) and 26 (of 28) seats and polled 57 percent of the vote. In Kerala it shared the victory with allies. In the fourth southern state, Tamil Nadu, it won 14 of 39 seats on the basis of 22 percent of the vote. Its erstwhile electoral ally, the AL-AIADMK, a local cultural nationalist party, won 18 seats, but declared soon after the national results were known that it would support the Janata government.

[3] The parallel between the 1967 and 1977 elections is striking. In 1967, the allied opposition parties almost defeated the Congress and in 1977, now united in a common party, they succeeded. In both elections, the turnout (at 61.3 and 60.5 percent) was well above the next highest level of the last six general elections, the 54.7 percent that participated in the "Indira wave" election of 1971. The message seems fairly clear: an aroused and active electorate can threaten or overcome the Congress' advantages as the legatee of the nationalist movement, the symbol of governmental authority, and the dispenser of the resources, patronage and sanctions of incumbency.

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two key elements of her electoral support in 1971, the Muslims and untouchables.

Although the failure of the vasectomy campaign has been most publicized, the rejection of Mrs. Gandhi's program and its implementation was wider and touches on India's future capacity to allocate a sufficient percentage of its gross national product to development. A positive, though often problematic, consequence of the emergency was its check on the ability of the organized sectors of society (students, labor, civil servants) consistently to increase their cut of resources through a series of strikes from 1966 onward. It seems absurd and immoral to view as problematic demands for increased pay by workers and lower level office employees making annual incomes of $500 to $1000 (particularly when their real wages over the past 20 years have been at best stationary). Yet these workers represent a relatively privileged sector of Indian society, with not only incomes but also organizational resources and political influence well above those of the much more numerous and deprived rural workers and tenants. Their demands constituted an enormous drain on the budget. Before 1975, the demands for four to eight percent annual bonuses and allowances to keep pace with inflation had moved state resources increasingly into "non-developmental" expenditures, while the rising pace of strikes to extract these benefits had cut seriously into productivity. At election time the pressure to continue the spiral was irresistible.

The emergency deprived these groups of leverage. The regime impounded dearness allowances, blocked the bonus by tying it to productivity, and banned strikes. It virtually imposed a social contract on the organized sector of the economy, both public and private. The impounded dearness allowances were converted into compulsory deposits and channeled into developmental expenditures. It is evident that much of the organized sector, teachers, government employees, public sector and private industrial labor, were alienated by the sacrifices they were asked to make.

Congress Party members came to this realization too late. Two weeks before the election, when some Congress politicians in the states woke up to the fact that their future was in doubt, they responded with sweeping measures in favor of these groups.[4]

[4] The state government of Uttar Pradesh (U. P.), with its 90 million people, halved the land revenue rates just before the election, having doubled them in July 1976. It granted a new pension scheme to primary and secondary school teachers, instituted five to ten thousand rupee scholarships for backward classes, gave a one month bonus to 4,000 government cement corporation employees, and 4 percent *ex gratia* payments to 100,000 electrical board employees. U. P. was only slightly more generous than most of the northern states.

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(Surprisingly enough, this massive use of the power of incumbency, a use reminiscent of Richard Nixon's employment of similar devices in the third quarter of 1972, just before the November presidential election, had little effect.) After the parliamentary elections and until nine states were put under President's rule pending the state assembly elections, the Congress state governments, no longer restrained from such extravagance by Mrs. Gandhi's directives, continued to expand their responses to the demands of organized groups. Everyone now recognizes that economic discipline makes difficult politics. How the new government will read this message has yet to be seen.

It is generally agreed that the massive vasectomy and slum clearance programs were major elements in the defeat, but they are themselves indices of a wider phenomenon: standard operating procedures had gone out of control. A highly routinized, not always sensitive bureaucratic apparatus was instructed to meet performance quotas on pain of loss of jobs, pay increases, promotions or satisfactory assignments. With the press and opposition stifled, and even Congress Party members intimidated, no warning messages appeared until it was much too late.

Sanjay Gandhi's Delhi adventure was an epitome of this phenomenon. His relatively untutored, disingenuous middle class vision told him that Old Delhi was messy and lacked beauty, and that its libidinous poor reproduced like rabbits. When he made the city his main responsibility in 1975–76, and pursuaded its senior civil servants and politicians that the future lay with him, they responded to his vision with great efficiency. They pulled down slums that had the ethnic cohesion and community organization of Boston's North End, moved the inhabitants to temporary colonies miles from where they made their living, projected an efficient 50-story skyscraper for the area and opened vasectomy camps that allowed Delhi to handle a disproportionate part of India's seven million vasectomies that year.

One need not suppose that either Sanjay or the Delhi administration intended what their actions conveyed, a conspiracy to expel and castrate Muslims. They may have sincerely thought they were creating beauty, making the city more livable for the poor, and that by reducing the population they would make life 20 years hence more tolerable. Local leaders who sought to interpret events to the administration otherwise were muzzled or jailed. It was a case of obtuse activism that may discredit many a worthwhile program for years to come.

These programs were felt most directly by two deprived consti-

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tuencies that tend to vote cohesively, the north Indian Muslims and the north Indian untouchables. Both groups turned against Mrs. Gandhi. In 1971 she had adopted a Bobby Kennedy strategy, attracting the poor and discriminated-against by promising protection and help. In 1977, the Imam of the Jama Masjid campaigned against her throughout northern India, spreading the word of Sanjay's disastrous Delhi adventure. And Jagjivan Ram's resignation deeply affected the untouchables, who since Gandhi's time have been attracted by Congress' commitment to equality via programs of progressive discrimination.

Perhaps the most important issue of the election was the constitutionality of the emergency. The holding of the election, the fact that it was free and fair, was meant to demonstrate Mrs. Gandhi's adherence to democratic legitimacy. A fatal flaw in this design was the illegitimacy, not just the insensitivity, of Sanjay's public conduct. Like other prominent persons in Indian public life and in Indian epics whose sons have destroyed them, she was ruined by this devastation of her legalist strategy.

Sanjay held no elected or appointed public office apart from his recently acquired position as member of the executive committee of the Youth Congress and of the party's national assembly, the All-India Congress Committee. Yet, having apparently played a critical part in convincing his mother to fight on after her Allahabad High Court conviction, he made his mark early in the emergency by issuing orders to or criticizing the performances of senior secretaries to government and ministers. Several who questioned his credentials were abruptly transferred or dropped from the government. Some in public life and the media admired the short shrift he gave to what they perceived as a hide-bound bureaucracy. As Khushwant Singh, editor of India's largest weekly, put it: "despite thirty years of talk and millions spent, the spiral of births continued in its dizzy climb upward. And suddenly last year (1976) it was checked . . . it was done by Sanjay Gandhi. He may not have had any authority to do it, but he did it." Others in public life saw an arrogant youth profaning the rules and their executors. In the end, his methods were denounced.

Finally, Mrs. Gandhi lost the election because the Indian electorate cared more than she thought for democratic institutions. The emergency raised a fundamental question of Indian political identity and capacity. Its institution accorded with the beliefs of those in India who, like the Mills, James and John Stuart, have understood authoritarianism to be a desirable form of government for so backward a country. Attacks on India's misunderstood caste sys-

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tem, illiteracy and poverty, the "idiocy" of its rural life, and its alleged fatalism have sustained such a view.

At the very least, however, such a perspective neglects the great changes in Indian political ideas and practice that accompanied the introduction 60 years ago of political participation and competition, and their universalization 30 years ago at independence. Democracy was not, as Mrs. Gandhi and her spokesmen often argued, a privilege whose benefits fall mainly to the rich and educated. In September 1976, she explained to Western television audiences: ". . . the opposition [to the emergency] is mainly from the privileged people who . . . fear an attack on their privilege . . . Amongst a population of 600 million people, the dissent is amongst a few thousand."

It is not likely that ordinary citizens care deeply for parliament, for the question hour, for the debate between government and opposition. These are the special taste of the newspaper-reading elites, who follow government and opposition in the English and vernacular press. But the idea of a competitive party system and its legal supports—the right to associate, to speak, to protest, to write and to be safe from political censorship; the right to trial and defense—have a larger constituency. During the emergency large sections of the population—including Delhi Muslims, and the town and village dwellers who had no recourse against the excesses of a committed bureaucracy—discovered, in effect, that they have rights to be violated. Democracy has acquired a mass base in India.

The universal franchise instituted in 1951 had one very simple effect: it made numbers count, and the poor and rural had more numbers than the rich and urban. Indian rural leaders, like American urban leaders in the era of immigration, recognized the electoral resources that lay around them; it only remained for them to be mobilized. Landlords mobilized tenants, caste leaders organized caste fellows, ethnic, religious and trade union leaders mobilized their followings. Parties learned to build balanced tickets, devices at once of cooptation and representation. As the voting game became more competitive, younger leaders competed with older ones for control, and the power of more conservative rural notables gave way to that of new leadership and less privileged sections. The intensity of local and rural politics led to much higher rates of participation in country than in city. While local notables have reaped more striking benefits from this process than the landless and one-acre farmers, there is no question that the effective political community came to reach far beyond the urban middle classes to include largely illiterate rural communities.

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Thus democratic politics provided rural people with political agents and ombudsmen who could intervene with the bureaucracy, both speeding things up and preventing excesses. While India's senior service, the IAS, remains one of the best in the world, the performance of the middle and lower services emphasizes routine rather than substance and arbitrary solutions over responsive ones. The MLA (Member, [State] Legislative Assembly) and the agents of local government had learned what U.S. Congressmen have also learned in America's increasingly agency-ridden world: helping constituents deal with the bureaucracy is critical to reelection. It is a function MLAs performed more readily and often for the heads of communities and owners of land than they did for poor villagers, but MLAs ignored the organized poor at their peril.

What dropped out during the emergency was this ombudsman function. MLAs and local government officials and MPs now believed that for success and survival they had to look to the top, to Delhi, the national party office, ultimately to Mrs. Gandhi, not down to their constituents. The coinage of success was no longer votes, but praise from Delhi for meeting quotas—quotas of land redistributed, quotas of vasectomies performed, quotas of house lots made available to the poor, quotas of wells electrified. To meet the quotas, what was wanted was collaboration with the bureaucracy. Many of the quotas, in fact almost all except the vasectomy program, should have gained voters for the Congress from among the rural underprivileged. Indeed, quotas often energized government performance. But in pursuit of quotas and the favor of the leaders in Delhi, other functions were neglected—protecting constituents against inequitable land tax decisions; easing the way to a building permit for a mud house; preventing the transfer of a school teacher to a post 40 miles from his home village; mediating those thousands of petty decisions by which an omnipresent and mechanical bureaucracy can make village life hard. In calling the election Mrs. Gandhi once again changed the coinage of success; by her own terms, the praise from Delhi for which local operatives had been vying suddenly became a worthless currency.

IV

India's sixth general election is likely to be longer and better remembered than those that preceded it, not only because it ended 30 years of rule by the Indian National Congress, whose hold on Indian politics reaches back to 1885, but also because it established that the Indian state was capable of alternating its government, a task even more difficult than handling the succession after the

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death of Jawaharlal Nehru in 1964.

Whether alternation proves its worth will depend on the performance of the newly installed Janata Party government led by Morarji Desai. The Party contains diverse elements whose incompatibilities have only recently and partly been reconciled through their common experience of being jailed by Indira Gandhi. Perforce, the parties and their leaders have come to share an appreciation for a government of laws. Electoral success and the imperatives of governing have strengthened the case for unity. Still, the legacies of the past are not easily shed or forgotten.

Collectively, the most devastating legacy is the sorry record between 1967 and 1971 of state governments led by coalitions of some or all of the parties now joined in the Janata Party. Plagued by defections, opportunism and internal conflict, the governments became notorious for their instability. The constituent parties acquired a reputation for self-regarding parochialism. Mrs. Gandhi's victory in 1971 was to a great extent a vote against bad government in the states by these parties.

The interests, ideologies and personalities that have been brought together in the Janata Party will severely test Morarji Desai's slogan, "Our strength lies in our unity." But it will not be an unreasonable or unfair test. It is well to remember that the Congress, one of the world's most successful democratic parties, has sometimes been compared to a boa constrictor on the ground that it could swallow anything. Yet ultimately it could swallow no more and split in 1969, disgorging leaders and factions, including Prime Minister Desai, that have now been absorbed by Janata. Janata in 1977, like the Congress in four of the five previous general elections, has at least been able to command a comfortable parliamentary majority, no mean accomplishment.

The Janata now has to show it can do better than in the past. It has begun by fashioning a united party out of those which collaborated in the election. Each component party has held conventions to dissolve itself; youth wings and trade union sections are attempting to do likewise. Perhaps the most dramatic and surprising union that the Janata is creating is that between two previously opposed forces, north India's Muslims and untouchables on the one hand and the militant, revivalist Hindus on the other. Muslims and untouchables constitute about 11 and 15 percent respectively of India's 620,000,000 population and they had been pillars of Mrs. Gandhi's political edifice. Her secularism, concern to eradicate poverty and efforts to create equal opportunities for oppressed minorities had secured their allegiance in the past. Yet under the

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emergency the Congress Party, friend and protector of the Muslims and untouchables, became their persecutor; and their persecutor's enemy, the militant Hindus, became their ally, perhaps their friend. In their adversity the two communities came to feel a sense of fellowship with the militant revivalist Hindus, including those whose Hindu orientation had defined Muslims as alien and untouchables as impure. Mrs. Gandhi had for years run against these Hindu militants, identifying them as the leading example of communalism, which her secularism was meant to combat and defeat. What most observers would have regarded as the impossible has been achieved, a common front of Muslims, untouchables, and militant Hindus, a front that helps to explain the Janata Party's overwhelming victories in India's populous north Indian states. Ironically, just as Mrs. Gandhi, her son and her party learned that the political gains of secular politics could be lost through ineptitude and insensitivity, the militant Hindu R.S.S. organization announced that it was considering admitting Muslims and Christians to its ranks. When the leader of the R.S.S. visited Delhi in mid-April, he was warmly greeted by leaders of the Jamaat-e-Islam e-Hind, the R.S.S.'s long-time militant Muslim adversary.

The Janata Party can probably be better understood in terms of what it is becoming than what it was; if it is to succeed, it will have to be a whole that is greater than and different from its parts. The electoral results in north India particularly suggest that Janata support patterns tore up the previous script for voter preferences. Insofar as the party builds on the new alignments, it will become, like the Congress, a somewhat amorphous center party.

No party in India can be a majority party without having support throughout the country and no party can achieve a widespread base without being a centrist party. Now the Janata, despite its current weakness in the south, has become an all-India centrist party. The Congress, despite its losses in the north, gives every indication of trying to maintain its all-India, centrist capability and orientation. If the Janata Party does not regress into its component parts and the Congress does not disintegrate under the trauma of losing an election for the first time, India will have a new party system composed of two all-India centrist parties, one, the Janata, more favorable to decentralization (a sign of the return of Gandhian ideas to the center of public life) and market forces, and the other, the Congress, more favorable to centralized state authority and planning.

The Janata Party's victory is likely to lead to important changes in the dominant public philosophy about the nature of the state.

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Mrs. Gandhi attacked and dismantled what she frequently referred to as the "soft state," replacing it, particularly during the emergency, with what she and Congress spokesmen liked to refer to as "a firm state." According to their definition, the firm state permits or grants citizens rights and does so only to the degree that they are compatible with national goals and the discipline required to realize them. Elections, as Mrs. Gandhi often argued, are less important than national power and independence sustained by economic growth and social justice.

Over the ten years since 1966, when Mrs. Gandhi first became Prime Minister, she sidelined, subsumed or destroyed competing political actors, created a system of executive democracy, and dismantled the constitutional constraints on the arbitrary exercise of power. The "syndicate," a group of state bosses, was outmaneuvered and most of its members sent into the political wilderness. Kamraj Nadar, the powerful party president who managed her elections as party leader in 1966 and again in 1967, was driven from office and into opposition along with Morarji Desai. The Congress socialists and Jagjivan Ram, with whose help she successfully split the Congress Party in November 1969, found themselves in jail or isolated and impotent in the cabinet. The CPI was repudiated and humiliated.

Over the same ten years, the apparatus and reach of the state increased enormously. The size of the military and of the central police units doubled over the decade to 1975, the first to one million, the second to 696,000 (this figure includes 532,000 home guards and excludes 756,000 state police). The prime minister's secretariat displaced the cabinet and its secretariat as the principal source of policy formulation, choice, and the coordination of plans and operations. The cabinet lost the collegiality that only peership can sustain and became increasingly a group of courtiers and dependents. Chief ministers, who dominated the political system in the 1967–1971 period, were reduced to yes and can-do men as Congress state assembly parties asked Mrs. Gandhi to nominate their leaders. The civil service and the judges, subject to transfer, supercession, and other forms of intimidation, increasingly became what Mrs. Gandhi called upon them to be, committed to nation-building goals as she defined them. The Research and Analysis Wing (RAW), originally created to provide foreign intelligence, helped Mrs. Gandhi to defeat, control or repress her political enemies. "Apex" bodies, which brought together producer interests, the professions, labor and the press, increasingly centralized and expanded the state's ability to control policy and opinion.

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What had been a version of a liberal state, in which citizens permitted the government to hold and use certain powers for their safety and convenience, constrained by a balance of powers and by accountability to the electorate, had been largely, if not wholly, dismantled.

The Janata Party government led by Morarji Desai will have to confront the legacy of the state Mrs. Gandhi brought into being. Insofar as it has a mandate, it is to do what Gerald Ford and Jimmy Carter, assisted by the Congress of the United States, have had to do in the wake of the Nixon presidency—restore confidence in government. This will involve dismantling some or most of what Mrs. Gandhi's government did through legislation and constitutional amendment and, more subtly, by the tone and style of their exercise of power. The Objectionable Matter Act, which institutionalized press censorship, was unanimously repealed when Congress members joined the repeal's supporters. Re-amending the constitution will be more difficult unless the Congress's two-thirds majority (required to carry constitutional amendments) can be reduced or replaced by a two-thirds Janata majority.

How far will the Janata government go in dismantling Mrs. Gandhi's "firm" or "hard" state? It is one of the tragedies of the emergency and the measures that preceded it that their plausible and imaginative elements have been, at least in the short run, discredited. The issues of effective government that the emergency addressed are sure to resurface in the coming years, many of them sooner rather than later. To some extent, Mrs. Gandhi's effort to reorient and restructure the judiciary, to expand the center's role in the federal system, and to construct instruments for consolidating the representation of interests answered pressing national needs. The federal system continues to shelter India's largest vested and privileged interest, its commercial farmers and rich peasants. (Even Mrs. Gandhi failed during the emergency to have agriculture transferred from the states' legislative competence to a joint jurisdiction with the center.) The courts had struck down or delayed redistributionist policies such as land reform measures, bank nationalization, the abolition of the princes' privileges and privy purses.

Shortly after taking power, the Janata government signaled that it would like to keep in existence aspects of Mrs. Gandhi's state—the "apex" bodies and joint labor-management committees—though their bias would now be toward labor rather than owner/manager interests and concerns. Whichever way such bodies "tilt," they may be an essential condition for labor productivity and

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discipline as well as for increasing labor's real income, stagnant since independence.

In the realm of policy, however, change is likely to be largely incremental. The platform the Janata Party offered to the electorate may have had little to do with the election result, which measured what the voters were against more than it measured what they were for, but it does give some indication of the government's goals and priorities. In its international orientation and tilt toward decreased controls, the Janata Party has emerged as a right-of-center all-India party in a two-plus party system. The behavior of the two main parties is likely to resemble that of the Democratic and Republican parties in competing for the middle. The Janata, however, is genuinely of the center more than the Republicans; it is as if Jacob Javits, Charles Percy, Clifford Case and other Republican liberals had been able to write the Republican platform and put together the policies and personnel of the Ford Administration, keeping in mind that the Indian political spectrum starts an appreciable distance to the left of the American.

There is no talk of bank denationalization or of dismantling the very large public sector, although the policy of reserving heavy industry for the public sector and consumer goods for the private is likely to be relaxed. The platform reflects a strong Gandhian orientation in its attention to the needs of rural society: larger plan allocations to the agricultural sector; decentralization; austerity; basic goods production and mass consumption; narrowing of urban-rural disparities; appropriate technology for self-reliance; and affirmation of the right to work and a full employment strategy. It is vague on fiscal or monetary measures and on prices and income policy. It has nothing to say about planning or growth other than its commitment to raise the allocation to the agricultural sector, pursue full employment and end destitution in ten years.

In all this, it is by no means clear that the tilt toward labor, rural society, the agricultural sector and basic goods production will go very far to help either the rural or urban poor.

The early statements and actions of Prime Minister Morarji Desai and his cabinet colleagues, in fact, indicate substantial, even massive, continuity in domestic and foreign policy, with the striking exceptions of civil rights and perhaps family planning. The new Finance Minister, H. M. Patel, replied to his predecessor's encomiums for the emergency economy with a scathing attack on its weaknesses, shortfalls and bleak prospects, particularly the long-term recession in the private sector which the emergency did nothing to reverse. Yet he is not likely to depart very far from the

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policies C. Subramaniam pursued over the past two years. India during the emergency became the darling of the World Bank and the International Monetary Fund, its economic performance much praised by Mr. McNamara, Mr. Witteveen and their officials. The fact that many "gains" of the emergency period, such as the decline in price levels, industrial discipline and improved production in the public sector, began several quarters before June 26, 1975 was seemingly overlooked. Also ignored was the fact that prices rose rapidly in the last year of the emergency (15.5 percent from March 1976 to February 1977); public sector production (e.g., steel) in the absence of domestic demand piled up as inventory or was sold abroad at or below unit cost; agricultural production fell by a projected 10 million tons between 1975–76 and 1976–77; and the spectacular three billion dollar balance-of-payments surplus was not matched by a favorable balance of trade.

The new government is likely to use rather than dismantle the "apex" bodies and joint committees of labor and management created under the emergency. However, they are likely to be recast, and there are indications that the socialists rather than the capitalists in the cabinet will set their terms of reference. The Minister for Commerce called for a code of conduct for industry and labor to maintain industrial peace, a code enforced by some "informal" variant of the emergency's labor management committees. The Labor Minister stressed the need to make labor's role in such committees more effective. A number of government spokesmen have suggested continuation of the compulsory deposit schemes initiated by C. Subramaniam to capture temporarily cost-of-living wage increases for investment. Clearly the new government would like to duplicate some of the gains claimed for the emergency—labor peace and discipline, productivity gains, limited price rises and high levels of savings for investment—but without resorting to repression and compulsion. No one knows what will happen if and when the pent-up labor and student and consumer demands and grievances begin to surface. Former leaders of these groups such as George Fernandes and Madhu Dandavate, who led the 1974 national railway strike that Mrs. Gandhi ruthlessly crushed without concessions, are now ministers. It is not likely that their presence, and that of Raj Narain, who led a massive "land grab" movement a decade ago, will help to restrain or moderate demands from the industrial and agricultural sectors. And how will such men, by comparison with their law-and-order colleagues, react to the demands of agitational politics and strikes now that they are ministers?

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The prospects of policy continuity seem least likely in the field of family planning, yet even here the indicators are mixed. Raj Narain, the new Minister for Health and Family Planning, quickly renamed his charge Health and Family Welfare. He is Mrs. Gandhi's nemesis, having brought the court case against her for corrupt electoral practices and defeated her on a second try in 1977. A populist socialist with a romantic approach to politics, he has labeled sterilization "an inhuman method not in tune with our culture and custom," denounced compulsion and offered large compensation payments to persons wrongly or badly sterilized. It is hard to penetrate Raj Narain's verbal bombast to discover just how much and what kind of a population control policy will be followed. Yet Prime Minister Desai seems to agree with most of the press that it would be wrong, indeed tragic, to let this excess among the excesses discredit the entire program so painfully developed over so many years, a program considered necessary for the country's economic welfare. The prospect is that political advantage will be taken of Mrs. Gandhi's unpopular measures, but it is at least plausible that the program, recast in the direction of voluntarism and persuasion, will continue to receive strong financing and energetic attention.

Foreign policy likewise will not change abruptly. The Prime Minister made clear that Russia's special relationship with India was at an end but that he expected to maintain close and friendly relations in the context of a more balanced nonalignment. Andrei Gromyko's visit within a month of the election seemed to satisfy both sides that continued good relations based on strategic and economic grounds were in both countries' best interest. Doubts about the effect on India's friendly relations with Muslim states of the appointment as Foreign Minister of Atal Bihari Vajpayee, an advocate of better relations with Israel, were quickly dispelled by a barrage of statements reaffirming India's longstanding commitments to Arab interests and causes and to good relations with the Muslim world, including Pakistan. Equally swift steps were taken to reassure China that the new government was eager to pursue further Mrs. Gandhi's opening and efforts at détente, an approach that gained credibility as a result of India's more "correct" relations with the Soviet Union.

Perhaps the most substantial change in orientation and tone can be found in the Janata government's remarks directed toward the United States. Indo-American relations had never fully recovered from the Nixon-Kissinger tilt toward Pakistan during the Bangladesh liberation struggle and from the dispatch of the *Enterprise* to

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the northern reaches of the Bay of Bengal. And earlier there had been strains from Lyndon Johnson's "short tether" on food shipments in 1966 and 1967 and the U.S.-engineered devaluation of the rupee in June 1966. Having for the most part been spared these brushes with American power and interest, the Janata Party leaders approach relations with the Carter Administration in fairly wide agreement with its main initiatives, including arms reduction, efforts to reverse and de-escalate the militarization of the Indian Ocean area, commodity agreements, and increased attention and resources to multilateral funding agencies. America's recent sale of arms to Pakistan was, to an extent, balanced in Indian perceptions by U.S. efforts to reverse the French sale of nuclear power and reprocessing plants to Pakistan. Prime Minister Morarji Desai has a long history of greater trust in U.S. goals and intentions than in those of the Soviet Union, a legacy that the Carter Administration's initiatives can serve only to sustain and strengthen.

Whether the Janata Party right-of-center coalition, superimposed on the country's now-formidable bureaucracy, will "work" for India remains to be seen. Whether the new government will be able to maintain the country's renewed commitment to democracy is a question perhaps at least as important for Western observers. But for the moment, the Janata Party's massive victory stands as a striking repudiation of authoritarian rule and a reaffirmation of the legitimacy of the liberal state based on open, competitive politics.

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T. B. Millar

FROM WHITLAM TO FRASER

After more than a year and a half in office, the Australian conservative coalition government led by Malcolm Fraser has established foreign policy in a pattern different from that of his Labor Party predecessor, Gough Whitlam, but different also from that of the Liberal and Country Parties governments of which Mr. Fraser was himself for some years a member and which were in power for a record 23 years from 1949 to 1972. He has inherited from both, and has adapted both to his own changing philosophy as well as to Australia's changing circumstances.

When the Liberal Party was voted out of office in December 1972, Australia was an established and close partner in the American alliance system. The security treaty between Australia, New Zealand and the United States—ANZUS—was the main pillar of Australian defense and foreign policy, and around it a network of relationships had been built up which comforted all Australians (when they thought about it) except those of the extreme Left, for obvious reasons, and some on the extreme Right who believed you could not trust the Americans and that Australia should build its own nuclear weapons and space them around the coastline. There was also a strand of thought among academics which advocated dispensing with the American alliance on the grounds that it made Australia a hostage to American foreign policy, tarring it with the same brush—unnecessarily so, because in a crisis the United States would help or not help Australia on the basis of assessed national interest to which a formal treaty was irrelevant. These were minority views.

Since 1950, Liberal and Country Parties governments had had armed forces in the Malaysian area, in conjunction with much larger British formations and smaller New Zealand ones, first to combat communist terrorists, then to help defend Malaysia and Singapore from Indonesia during "confrontation," and finally as part of the Five-Power defense arrangement for the joint defense of the two Asian Commonwealth states. John Gorton (Prime Minister, 1968–71) had even said in 1968 that Australia would stay there

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after the British withdrew, which they were then scheduled to do by 1971. Australia had been a member of SEATO from its inception, had had some 8,000 servicemen in Vietnam for much of that war, and had withdrawn them concurrently with the American windingdown in 1971–72.

During his time as Prime Minister, Mr. Gorton had begun to recognize that the world around Australia was changing, and that some of the major assumptions that had underlain Australian foreign policy since World War II, or at least since 1949, were no longer demonstrably valid. These assumptions were that any attack on Australia would come from Asia, and that such a threat, or potential threat, existed--from Japan, China or Indonesia; that the United States and Britain had their own interests in Asia, and in combating militant communist activities there, as well as an interest in the security of Australia. Thus Australia should encourage and help them to remain militarily committed to the area, in order to keep potential enemies as far away as possible from Australia. This policy came to be known as "forward defense," and the Australian contribution was a form of insurance, a payment of club fees. It was given a setback after 1967 by the British retrenchments east of Suez, and a body blow by the Nixon Doctrine and the American withdrawal from Vietnam.

Australia had never fought in Asia except alongside either Britain or the United States, and (apart from other considerations) did not have the necessary logistical capacity. By 1972, no one in the Australian government believed that massive numbers of white ground troops would be put back into Indochina, or used to defend Thailand, either within the context of SEATO or outside it. The logical conclusion from this was that with neither Britain nor the United States committed to the defense of mainland Southeast Asia, Australia could not be committed there either.

But these were the last months of a government atrophying through age, which had few ideas of its own, and did not encourage the public servants, on whom it relied, to supply them. Any reconsideration of Australia's strategic position or political alignments was not done or reported in public. Even by late 1972, well after the visits of both Henry Kissinger and Richard Nixon to China, Gorton's successor, William McMahon, was not prepared to recognize the People's Republic, and prevented a junior Minister (Andrew Peacock) from accepting an invitation to Peking. There were no diplomatic relations with North Vietnam,North Korea or East Germany.

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Australian foreign policy was of course concerned with much more than the relationships with the United States and Britain. Cordial relations were developed with the non-communist countries of Asia, despite some difficulties over immigration restrictions into Australia. The Colombo Plan for economic and technical assistance in Asia was an Australian initiative, launched partly for humanitarian reasons and partly in the hope that it would promote political stability. At the United Nations, Australia was a member of the "Western European and others" group, taking on many issues a position more liberal than, for example, France. The South Pacific Commission, paternalistic as it was, had also been launched by Australia (by the wartime Labor government), and offered some help to the small Pacific island territories.

The final period of Liberal rule was not wholly devoid of rethinking in foreign affairs. Indonesia replaced India as the largest recipient of foreign aid.[1] The Department of Foreign Affairs came around to recommending the recognition of Peking, even if the recommendation was not accepted. Papua New Guinea, part Australian colony, part Australian-administered U.N. trusteeship, was moved close to internal self-government. Restraints were imposed on capital inflows into Australia. After the Australian withdrawal from Vietnam, completed by March 1972 except for a small training team, relations with the United States were less obviously dependent. Australia helped promote the South Pacific Forum as a means of joint consideration of common problems among the independent island states. Thus, Australian foreign policy was not noticeably dynamic but neither was it completely static in 1972. It played little or no part in the election at the end of the year which brought Labor back out of the wilderness.

II

From the moment he became Prime Minister, Mr. Whitlam was determined to put his mark on Australian foreign policy. For eleven months he was his own foreign minister, de jure and de facto, and was foreign minister de facto for the remainder of his time. He appeared to relish his role in foreign affairs much more than in domestic affairs: he enjoyed travel, meeting eminent people, conducting diplomacy, and putting the world to rights. He was determined to place Australia on the map to an extent not achieved

[1] Technically Papua New Guinea was by far the largest recipient of external aid, but it did not actually become independent until September 1975.

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since Herbert V. Evatt's time (1941–49); to make its voice heard and respected in Asia, Africa and Latin America no less than in the Old World; in the communist states no less than in the United States. A little unfairly, he believed that Australia in its conservatism and in its deference to allies had passed by on the other side of the great human problems and movements of our time, and he was determined to change all that. He saw himself as combining the imposing stature and oratory of Sir Robert Menzies with the radical and humane zeal of Dr. Evatt, and as calling in the Southern Hemisphere to redress the balance of the Northern. He saw the need for new policies, in their own right, and quickly set about implementing them.

There is no doubt that Mr. Whitlam significantly changed the direction, tone and image of Australian foreign policy—sometimes with the agreement of senior members of the Department of Foreign Affairs, sometimes against their expressed judgment. He immediately entered into diplomatic relations with Peking, and later with North Vietnam, East Germany and North Korea. He withdrew the few remaining military advisers from South Vietnam, and stopped Australian military aid there and to Cambodia. He downgraded, without formally abandoning, the Australian commitment to SEATO. He strongly criticized the renewed U.S. bombing of North Vietnam. He withdrew most of the Australian ground elements from the Malaysian area.[2] He stopped Australian wheat going to Rhodesia under the thin disguise of humanitarian aid. He prevented Rhodesian and South African sports teams from coming to or transiting through Australia. He provided some nonmilitary aid to African revolutionary movements.

At the United Nations, Australia voted for some anticolonial resolutions where it had previously abstained, and spoke warmly in favor of Afro-Asian bandwagon proposals. To further dilute the image of Australia as a colonial-type power, the independence of Papua New Guinea was hastened, over the objections of local leaders, who were told also that Australia would not help with their internal security after independence. Australia even voted, tongue in cheek, at the United Nations to give independence to its own Indian Ocean territory of the Cocos Islands, with their 600 or so inhabitants.[3]

Australia had for years objected to French atmospheric nuclear testing in the Pacific. It now, with New Zealand, took France to the

[2] The battalion and supporting services were withdrawn from Singapore, but an infantry element remained in Malaysia to protect the Australian air force base at Butterworth.

[3] Mr. Whitlam later told parliament that no one took this proposal seriously.

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International Court, and protested, less audibly, to the Chinese over their tests. Mr. Whitlam supported the concept of a "zone of peace, freedom and neutrality" in Southeast Asia, and a zone of peace in the Indian Ocean and sympathized with proposals for a nuclear-free zone for the Pacific. He personally promoted the idea of a wide regional association in Southeast and East Asia—an idea that had little appeal to any other regional leader. Over the Middle East, partly because of Australia's increasing isolation on the issue, and partly because of a larger Muslim population (from immigration), he moved Australia's position from one of sympathy to Israel, to roughly midway between the Israeli and Arab positions—"even-handedness," he called it. He sought to mollify the Russians by announcing that Australia formally acknowledged Soviet sovereignty over the three Baltic states. (This disturbed the Japanese, concerned about the implications of his action for their claim to the return of the northern islands.) He publicly deplored both the Soviet and the American naval presences in the Indian Ocean, although privately he came to accept that the first was inevitable and the second (to balance things up) desirable. He deferred the construction of an American Omega maritime navigation system in Australia, under pressure from his left wing, but retained the various American military and space installations, with some modest renegotiation of terms.

The Gorton government having signed the Nuclear Nonproliferation Treaty, the Whitlam government ratified it. Over immigration, he formally pronounced the restrictive "White Australia" policy dead and buried, and asserted (more credibly than ever before) that there would be no discrimination against immigrants on the basis of race or color.[4]

There were other aspects to Labor's external relations that were handled by some of Mr. Whitlam's colleagues, and where they rather than he made the running. Policies over the sale of Australian minerals were largely determined by the Minister for Minerals and Energy, Mr. R. F. X. Connor. These policies were more nationalistic, more variable, more personal than under the previous government. The concept of using resources policy for political ends—"resources diplomacy"—was enthusiastically examined and reluctantly rejected. Overseas investment in Australia, already limited by the Liberals, came under greater restraints, and multinational corporations became the party's favorite whipping boy. These matters were an issue in Australia's relations with Japan, and

[4] Racial origin was dropped as one of the formal criteria for determining the admission of migrants. This is still the case, although the relevant minister has discretionary power.

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constituted one reason why Mr. Whitlam was unable to achieve one of his objectives—the rationalization of Australian-Japanese relations within a new, comprehensive treaty.

The Labor Party had never been keen on committing troops overseas. It supported ANZUS, but had opposed the original despatch of forces to Malaya, and later to Vietnam. Mr. Whitlam spoke of the Australian element in Singapore as a "garrison," an unusual word to describe its purpose but with the right emotive content to rationalize its withdrawal. He wanted to eliminate any justification for labeling Australia a colonial or neocolonial power. He wanted (or his Cabinet wanted) to save money on defense so as to be able to spend it on social services and other good works. So a destroyer construction program was canceled, orders for other major equipment were deferred, and the construction of a naval facility at Cockburn Sound on the west coast was slowed down. There was a real reduction in total defense expenditure.

Not all members of the parliamentary Labor Party were happy with these decisions. The Foreign Minister, Senator Don Willesee, disagreed with some aspects of foreign policy. The Australian Labor Party includes a much wider Left-Right spectrum than does the conservative Liberal Party, and some members on the Labor Right were dismayed at the run-down of defense. But there was broad agreement nevertheless, extending (after a pause) to the Liberal and Country Parties, that Australian defense planning had now to be directed first and predominantly to the security of the Australian continent and adjacent maritime environment. The new name for the defense strategy under Labor was "continental defense," and the new thinking about it and about its implications for weapons and tactics had barely begun when Labor lost power.

Labor's view of the world was thus very different from that of its predecessors, who had barely begun to adjust after 20 years of anti-communist wars in Asia. Labor as a party was not alarmed, nor even dismayed, by the communist victories in Vietnam, Laos and Cambodia, and saw no adverse implications for Australia. It was not particularly troubled by Soviet naval movements in the Indian Ocean. It was not frightened by China, nor did it believe China was expansionist or aggressive. It believed there was value in having the United States available for some unforeseeable and remote crisis, but that in the meantime the United States would understandingly accept a public kick in the shins from time to time to establish Australia's independent credentials. It believed there was a rough multilateral balance of power in Asia, and détente elsewhere; that international expressions of good will were a form of

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insurance; and that in these as much as in ANZUS lay Australia's continuing security. It did not see the vivid contrast of good and evil between the communist and non-communist powers that many Liberals had seen. It saw the world substantially at peace, and likely to remain so.

Many of Mr. Whitlam's initiatives were long overdue, but few were well thought out, or their internal contradictions resolved. His support of Third World causes surprised and delighted Third World leaders. At international gatherings, he spoke with intellectual and rhetorical distinction. So, of course, did a lot of other people, and not even Gough Whitlam could escape the hard facts of Australia's position. In some senses it is a "middle" power. It is a significant exporter of commodities. It is active in the world's councils. But it has limited political or military strength, only a modest amount of aid to give, and less international "clout" than its leaders—and leader writers—often appreciate.

Mr. Whitlam probably needed another three years to stabilize his foreign policies, to find the necessary balance in his own approach to the world. Australia under his direction had begun a new, more sympathetic relationship with China, and with the poorer nations; at the same time it came near to disrupting its close partnership with the United States. The two were not as incompatible as he appeared to believe. Australia did not have to lose an ally in order to find a role.

III

In the dramatic events of November and December 1975, Mr. Whitlam lost the Prime Ministership not because of his foreign policies but because his government had demonstrated, to a sizable majority of electors, a high degree of administrative, financial and constitutional irresponsibility. The coalition of the Liberal Party and the National Country Party that accordingly came to office accepted many of the changes introduced by Mr. Whitlam. There was no question, for example, of de-recognizing Peking: that would have been foolish. The Liberals when in office had quickly realized that this aspect of their China policy had been mistaken; Mr. Fraser had sought to go to Peking, was invited, and would have gone had the election not intervened.

Mr. Fraser is quite clearly the leader of his government. He is strong, tough, and experienced as a minister. Unlike Mr. Whitlam, he is able to choose his Cabinet.[5] He is not out to change the world.

[5] In the federal Australian Labor Party, the parliamentary caucus elects its front bench and the Leader of the Party allocates portfolios. The Liberal Party Leader does both for his party.

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He is not an orator. He talks bluntly, but without offering offense. He believes in getting down to work and sorting out the issues. He is not a good tourist, and prefers fishing to sightseeing. He does have firm views about the world and Australia's place in it, and has in general imposed these on his government. These views are shared by the Defence Minister, Mr. James Killen, and to a lesser extent by the Foreign Minister, Mr. Andrew Peacock.

Mr. Fraser sees the world as a much less stable, much more dangerous place than did Mr. Whitlam. He does not believe that a real détente exists, except perhaps uneasily in Europe and the North Atlantic, and even here (as in many other places) the Russians are assertive and expansionist whereas the Americans are strong but diffident. He sees the Soviet Union as an unsatisfied power seeking whatever worlds it may conquer short of provoking war with the United States. He saw developments in Indochina as a strategic loss for Australia, because they changed the balance of forces in the region in favor of the communist powers, thereby making more difficult the independence of Malaysia and Thailand; and because they denied defense facilities to the West and opened the possibility of their being used by China or the Soviet Union. However, he realizes Vietnam may devote its energies primarily—as seems to be the case at present—to its domestic situation. He believes that if you appease a dictator you feed his improper ambitions. It would be wrong to say that he has a black and white view of the world, but it is more black and white than Mr. Whitlam's view. He sees forces of evil abroad in the world, and believes that men of honor should be prepared to stand up and be counted. He probably considered Mr. Whitlam's many excursions carrying the Australian flag as pretentious, promiscuous, and at times counterproductive.

Although without noticeable respect for public servants, he feels that with 20 or 30 years of experience they are more likely to be informed and more able to offer responsible advice than academics or journalists imported as whiz-kids on a minister's personal staff. He is not a man to play with ideas, with abstractions. He is a man of principles, including the principle of using power when you have it. He does not have Mr. Whitlam's panache, nor his way with words, nor his intellectual dexterity and flexibility. He is a new, young (47), hard-minded, dogmatic, courageous Prime Minister doing the job as well as he can, and still feeling his way in the tangled forest of international relations.

Andrew Peacock, the Minister for Foreign Affairs, is younger again (38). In previous Liberal governments, he was Minister for

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the Army, then briefly Minister for External Territories when he presided with skill and goodwill over Papua New Guinea's pre-terminal steps to self-government and independence. He is a competent minister who does his homework. He would classify himself as a small "1" liberal, in foreign affairs as in other matters, somewhat to the left of his Prime Minister but still well to the right of Mr. Whitlam. He believes strongly in the American alliance, but he never liked the 51st state image, and will do his best to prevent its reemergence. In foreign affairs, he is better informed on detail than Mr. Fraser, and has a surer touch. There is an element of competition between them.

In its various foreign policy statements and actions since it came to power, the Fraser government has for the most part indicated changes of emphasis rather than of direction. It believed, with some reason, that Washington's confidence had been shaken, and so it moved quickly to restore trust. It supported proposals to upgrade the facilities at Diego Garcia. It announced that American nuclear-powered warships could call at Australian ports. It adopted a generally more Western stance. To mark the U.S. Bicentenary, it carried through a proposal of the Whitlam government to endow a chair of Australian studies at Harvard University.

The reaffirmation of the close American ties was a little self-conscious, showing perhaps a resolve to shed the earlier sense of dependence epitomized by Prime Minister Harold Holt in Washington during the Vietnam War when he said that Australia was "all the way with LBJ." When Mr. Fraser visited President Ford last July, the communiqué concluding the discussions carried the statement—"The President and the Prime Minister recognized that all nations should treat each other as equals despite differences in power, size and circumstance"—a piece of rhetoric explicable only in terms of American appeasement of Australian self-esteem, and more reminiscent of Labor's Dr. Evatt than of the Liberal Sir Robert Menzies.

In opposition and in government, Mr. Fraser has been consistently skeptical of Soviet intentions, and critical of its military presence in the Indian Ocean.[6] In June 1976 he said, "It is clearly contrary to Australia's interests for the balance in this area to move

[6] The Soviet naval presence in the Indian Ocean has been the subject of two Australian parliamentary inquiries, which produced responsible, balanced reports, and of sporadic, rather simplistic debate. Most concern has been expressed in Western Australia, which borders the Ocean and has a tradition of feeling isolated and vulnerable. Few people are alarmed at the size of the naval presence, which is still modest, but more are concerned that the strategic balance in the area has changed, that the Soviet Union has bases in Somalia and anchorages elsewhere, that it may be able to interdict communications (about half Australia's trade crosses the ocean) or even, in some future crisis, cut off the flow of Middle Eastern oil to the West.

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against our major ally, the United States." But he went on, "It is also against our interests for both superpowers to embark on an unrestricted competition in the Indian Ocean. We seek balance and restraint." Events in Angola appeared to confirm the government's suspicions of the Russians, and its disbelief that détente had been achieved. The Omega navigation station is at last going to be built. Mr. Peacock has said that Australia will not hesitate to disagree with American policies, if Australian interests are affected, but will do so in private. If precedents are any guide, this gentlemanly approach will not apply to protests Australia may make over beef, lamb or wool.

When Mr. Whitlam formally acknowledged Soviet sovereignty over Latvia, Lithuania and Estonia, he offended the sizable Baltic communities living in Australia. During the election campaign, Mr. Fraser undertook to reverse this policy, and less than a week after the poll the Australian diplomatic staff in Moscow were instructed not to make official visits to the three territories.

The Soviet government had not shown any great enthusiasm for Mr. Whitlam, but it has been publicly displeased by the pro-American and anti-Soviet attitudes of the Liberal and Country Parties administration. It had some grounds for concern over Mr. Fraser's visit to China in June 1976. His declared suspicions of the Soviet Union, reaffirmed in Tokyo before going to Peking and again when he got there, may have helped to ensure him a warm Chinese welcome, but must have looked in Moscow as if Australia were doubly aligning itself against the Soviet Union: with the United States on the one hand, and with the People's Republic on the other.

Unquestionably, the visit to China was a major event. Mr. Fraser was given a reception that appeared in every way as warm as that accorded to Mr. Whitlam earlier. There was a forthright exchange of views on both sides. Mr. Fraser voiced his concern about Soviet policies, but did not align Australia with China in the Sino-Soviet dispute. He suggested that China, Japan, the United States and Australia had interests in common which could be developed, especially in containing Soviet military expansion. The Chinese agreed. He expressed his regret and concern that China should continue to support revolutionary movements in Southeast Asia. The Chinese leaders explained that they were committed to this, and would go on doing it, but that good relations with the relevant incumbent governments would always have priority. It was unfortunate that a summary of one of Mr. Fraser's discussions with the Chinese Prime Minister, Mr. Hua Kuo-feng, was leaked to the

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press, allegedly by an accident within the Australian delegation, and that it included frank and not wholly favorable comments by Mr. Fraser on some Asian governments.

We do not know what the Chinese leaders thought of Mr. Fraser, but he and Mr. Peacock later declared that they were impressed by the sincerity of the Chinese, and their willingness to see a continuing American influence in Asia, which Mr. Fraser duly reported to President Ford.

What prompted Mr. Fraser to change so radically his views on China—at one time a potential enemy, the principal threat to Australia and its interests; three years later, a friendly power, even (at least by implication) a potential ally? It may be that the cultural and personal impact of China and the Chinese was such as to make the Australian visitors more sympathetic to their hosts' viewpoint than an objective assessment of Australian national interests would require. One factor was presumably the degree of responsibility shown by China in the international community; its failure to behave as unpleasantly and as aggressively as had been predicted and feared; its remarkable if still limited rapprochement with the United States. Another factor may have been the continuing expansion of Soviet influence and power in Australia's region, for which the United States was not necessarily a complete counterbalance. Mr. Gorton in 1969 had been prepared to offer a modified welcome to the Russians in order to contain the Chinese. Mr. Fraser seven years later saw the reverse as more appropriate to the facts.

IV

Mr. Fraser's greatest success has been on groundwork laid for him by Mr. Whitlam.

For some 80 years, successive Japanese governments have sought a treaty of friendship, commerce and navigation with Australia. Largely from fear of the implications for its restrictive immigration policy, Australia consistently refused the proposal, even after Japan had become, in the late 1960s, its best customer and the most significant factor in Australian prosperity. Mr. Whitlam, when Prime Minister, accepted the idea of a treaty between the two states, but felt it should be more comprehensive than a standard FCN treaty. Various drafts were exchanged, and broad agreement reached on most matters. But for reasons known only to themselves, the Japanese demanded of the Australian government more favorable treatment for Japanese nationals and enterprises resident in or entering Australia than that currently afforded to

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any other country. No Australian government could have made such concessions.

The Fraser government took a position similar to its predecessor, but Mr. Miki was keen to conclude the treaty, and a form of words was found which satisfied both sides. On June 16, 1976, the "Basic Treaty of Friendship and Cooperation between Australia and Japan," plus a Protocol, two exchanges of notes, some agreed minutes and a record of discussion were signed in Tokyo.

Assuming, as we should, that the words mean what they say, Japanese nationals and companies in Australia have been guaranteed by this agreement, for the first time, treatment as favorable as is accorded to those of any other non-British country, including the United States. Indeed, in view of the reduced relations between Britain and Australia, there is now little practical difference between the status of Japanese and British subjects, or enterprises, in Australia.

To the outside world, this may seem entirely logical and reasonable, but for most Australians, with their predominantly British and strong anti-Asian heritage, it is the culmination of a revolution.

On many issues, Mr. Fraser's government has behaved much as Mr. Whitlam's would have been expected to behave. It has changed very little over South Africa, or general issues of racial discrimination and colonialism. It surprised the Commonwealth Secretariat with a sympathetic and practical approach, but unlike previous Liberal and Country Parties governments, it has paid little deference to the British connection. Mr. Fraser, an Oxford graduate, did not go to London as Prime Minister until this June, and visits by some of his ministers have been brief, on the way to somewhere else or for recreation. Mr. Fraser has yet to contend with a Middle East crisis, and declare his hand, but he is probably more committed, in practical terms, than Labor was to the preservation of Israel. His government has provided helicopters for the U.N. peacekeeping force. He has a less sympathetic attitude to the Palestine Liberation Organization, and to North Korea. The Liberal government is unlikely to vote for the independence of the Cocos Islands, but has surprisingly had no difficulty over extreme resolutions on Namibia and Rhodesia. It has given aid to Mozambique. Its U.N. voting pattern has barely changed from that of the Whitlam government. It won't advocate, as Mr. Whitlam did in a rash moment, the overthrow of the South African government by force, but neither will it cease to condemn apartheid, support all but the most violent resolutions on South Africa, and refrain from any kind of defense connection with the Republic.

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As with China, this marks a significant change in attitude by Mr. Fraser, whose statements when in opposition indicated a measure of sympathy for the white and South African and Rhodesian governments. What caused him to change his position, or at least to acquiesce in policies he would not earlier have supported? Both Mr. Fraser and Mr. Whitlam have been conscious of Australia's increasing isolation in the South Seas. Mr. Whitlam's attitude to the Third World was, unlike his predecessor's, "Don't try to beat them; try to join them." Among other things, Australia thus became a member of the Council for Namibia, of the Ad Hoc Committee on the Indian Ocean, and rejoined the Committee of Twenty-four on decolonization. Membership on such committees constitutes an influence upon the policies of members in the direction of the consensus, as well as offering an opportunity to influence other members. To walk out of such a committee is a public gesture which would end all opportunities to influence it. Whether he liked it or not, Mr. Fraser was thus hoist with the petard of his predecessor's progressivism. Also, aware of its comparatively isolated position, no Australian government now wants to be seen to vote with a small minority against a resolution having massive support, and will do so only on a matter of the highest principle.

One international crisis, the Indonesian invasion of Timor, straddled the change of government in Canberra. Indonesia had shown almost no interest in the territory prior to the 1974 Portuguese revolution, but with the offer of independence to Angola, Indonesia discovered a passionate historical and natural affinity and affection for East Timor. In a visit to Djakarta in September 1974, Mr. Whitlam expressed the view that East Timor was a natural extension of the Indonesian Republic. Considerable resistance developed to this concept within Australia, as it did in the territory, where a civil competition for power became, with Indonesian encouragement, a civil war into which Indonesian armed forces increasingly intervened. On December 7, 1975, Indonesia staged a major invasion of East Timor, allegedly by invitation, to restore order. December 7 was during the period of the Fraser caretaker government, when he was committed to take no policy decisions.

The reasons for the Indonesian invasion were: (1) fear that an independent East Timor would become a base for guerrilla movements (as existed elsewhere) working to break up the Indonesian republic; (2) a belief that an independent East Timor would never be viable, and a fear that under Marxist leadership it could become a host to Soviet or Chinese bases or forces; (3) a largely cultivated

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conclusion that the people in the territory wanted to be part of Indonesia; and (4) simple acquisitiveness, which the successes of the left-wing "Fretilin" forces within East Timor seemed capable of frustrating. Indonesia used the first three of these arguments on the Australian government, and the timing of the invasion may have been influenced by the domestic political turmoil in Australia.

Within Australia, there was a legacy of pro-Timorese sentiment from World War II, when an Australian guerrilla force operated there in the mountains against the Japanese for a year. This sentiment was reinforced by some very skillful propaganda by Fretilin representatives. On the other hand, there was also a great deal of pro-Indonesian feeling, and a belief that in the long run it was more important for Australia to have good relations with 130 million Indonesians than with a quarter of a million Timorese. Again, some very vocal people, seeing Indonesia's show of strength, which was massive, brutal, and accompanied by transparent propaganda, deplored its violence and illegality, and feared that there might at some stage be a repetition against all or part of Papua New Guinea.

There seems little doubt that the Labor government encouraged Indonesia in its acquisition, although perhaps not in the means adopted. It is unlikely that Mr. Fraser would have offered a blessing in advance, explicitly or implicitly, to this action; but given a fait accompli, no Australian government could have intervened physically on behalf of the Timorese. Nor, irrespective of the extent to which it regretted Indonesia's action, could it base its whole relationship with Indonesia upon this one situation. After the event, the Liberals did broadly what Labor would have done: deplored the invasion, sought through the United Nations the withdrawal of forces, proffered aid, declared for some form (however specious) of testing of Timorese opinion, and sought a resumption of relations with Indonesia as though nothing had happened.

But something *had* happened. The invasion aroused latent Australian alarm, prolonged by continuing reports of the brutality employed. Indonesia could not understand why, alone among its neighbors, Australia objected to the takeover. Timor was an object lesson in the weakness and ambiguity of Australia's position when confronted by a powerful neighbor, which that neighbor could not fail to observe. It will be some time before the earlier close cooperation and confidence are resumed.

In only one area of foreign policy has Mr. Fraser actually reversed decisions of his predecessor, apart from the minor ques-

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tion of the Baltic states. This was over the zone-of-peace concept, proposed in different forms by Sri Lanka for the Indian Ocean, by Malaysia for Southeast Asia, and by New Zealand and others for the Pacific. Mr. Whitlam strongly supported the concept (though with much less sympathy for the Pacific proposal than for the other two). Mr. Fraser sees little practical value in it. He has said so for the Indian Ocean, which earned him no marks from the proposers. The Southeast Asian idea was less absolute; it recognized the interests of the great powers, and simply sought to get them to limit their involvement. The Fraser government saw no great hopes for this proposal, but no great objection to it.

Over the Pacific nuclear-free zone idea, which in the circumstances was surely an absurdity from the beginning, Mr. Fraser and Mr. Peacock expressed their skepticism to an informal Pacific Forum meeting in March 1976 which considered the subject and which thereupon amicably and unanimously reversed its previous position of support.

V

As with Dr. Evatt 30 years before him, Mr. Whitlam brought to Australia's external affairs a heightened sense both of nationalism and of internationalism, with inevitable tension between the two. Nowhere was this more evident than in foreign economic policies.

Australia had become a serious if not overly generous donor of foreign aid with the inauguration of the Colombo Plan in 1950, and had steadily increased the quantity and diversity of aid, most of it going through bilateral arrangements to Asian developing states, and virtually all of it in the form of grants. Aid was administered through the Department of External Affairs (later renamed Foreign Affairs), with the Treasury restraining the quantity of aid given, and the Department of Trade seeking to have aid linked to Australian exports.

Mr. Whitlam changed Australian aid policies in several important respects. He did not manage to increase total aid significantly, but with his eye on the Canadian model, he established an Australian Development Assistance Agency (ADAA) separate from the Department of Foreign Affairs although under the control of the same minister, and set it to develop a coherent aid philosophy and administration. He raised (from 9 percent to 14 percent) the proportion of aid given through multilateral channels, which were considered more internationally respectable than bilateral means. He increased the amount of aid not tied to Australian exports, thus giving recipients greater flexibility. Changes in aid philosophy take

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some time to be implemented, but ADAA began to rationalize aid projects within each country, and to give a greater emphasis to rural development and employment.

The Fraser government, despite a massive budget deficit, has not reduced foreign aid; total development assistance for 1976/77 is estimated at $A399 million (about $440 million current U.S. dollars, or 0.49 percent of GNP, according to an early government forecast in November 1976). However, ADAA has been abolished and aid brought back under the control of Foreign Affairs. This was partly a matter of economy, and partly of philosophy, the Liberal Party supporting the thesis that aid is an expression of foreign policy and not an adjunct to it. There has been no further increase in multilateral aid, mainly because there is little room for maneuver: Papua New Guinea consistently takes two-thirds of bilateral aid, and much of the rest is under the Colombo Plan, a government-to-government operation. Other Whitlam initiatives have tended to remain.

Australia has been built very substantially on imported capital, and during most of the long years of Liberal Party rule, it was open season for overseas investors. However, William McMahon, briefly Prime Minister before Whitlam, introduced laws to regulate foreign takeovers, which Whitlam at first administered and then extended, seeking to secure maximum Australian equity in new ventures involving overseas capital. He ran into the problem, of course, that foreign capital creates employment and wealth, which are electorally desirable, and that investors are easily deterred. Statements by members of the government gave the impression that the policy was more restrictive than it was in practice. It was not until September 1975 that Mr. Whitlam enunciated a coherent statement of investment policy which implicitly acknowledged the national costs of keeping investment out.

The Fraser government's policy was announced by the Treasurer on April 1, 1976. This freed some forms of investment from case-by-case scrutiny, but continued Labor's takeover policy with respect to non-bank financial institutions and insurance companies, new large mining and natural resource projects, and certain acquisitions of real estate. In these "key areas," proposals were generally to be allowable where there was a minimum of 50 percent Australian equity with at least 50 percent Australian voting strength on the board, subject to these objectives being attained, if necessary, over a period of time. For uranium, the required proportion of Australian equity was reduced from 100 percent to 75 percent. In practice, therefore, the Fraser policies have not been so

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very different from those of Whitlam, to the dismay of some overseas investors.

The foreign investing and trading community has had some reason to feel unsure of Australian economic policies. On coming into office, the Whitlam government introduced a variable deposit requirement (VDR) of 25 percent of overseas borrowings with a maturity of over two years to be lodged with the Australian Reserve Bank. This was later raised to 33⅓ percent, then reduced to 25 percent, then to 5 percent—all this within 20 months—then suspended. In January of this year, the Fraser government reactivated the 25 percent VDR. Similarly over currency: under Whitlam, the Australian dollar was quickly appreciated 7 percent against the U.S. dollar, effectively up another 10 percent two months later, then down 12 percent in September 1974. In late November 1976, to stop the drastic outflow of capital funds, the Fraser government devalued by 17.5 percent; then it revalued eight times in less than a month, by small jumps, leaving a net devaluation of 12.45 percent compared with the pre-devaluation level. To all but the most initiated insiders, this is a confusing way to manage a currency and maintain international confidence in it.

International forces bear heavily on a country such as Australia which is so dependent on the export of primary products. The world recession caught Whitlam during his term of office. One reason why that term was foreshortened was his use of apparently unconstitutional means to raise (in the event, unsuccessfully) massive overseas loans from dubious sources to meet an unprecedented budget deficit,[7] subsequently bequeathed to Mr. Fraser. The latter has imposed orthodox economic restraints in order to weather the storm, but the storm continues unabated.

VI

These are still early days for the Fraser government, whose foreign attitudes and policies are still maturing. Mr. Fraser naturally started with issues that concerned him most—those involving national security. Cabinet and parliament have approved the money to upgrade defense. This is slowly happening, although it still takes a back seat to the pressing needs of the economy. Mr. Killen has not ruled out the use of Australian forces overseas, but no one can see where they would be used or how they could be

[7] Other grounds for the loan were advanced, such as "buying back the farm" from foreign investors (with high interest foreign loans!). Some observers saw it as an insurance against the blockage of financial legislation by a hostile Senate.

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maintained. The navy and the air force are indeed inadequate for normal peacetime requirements, let alone for operations abroad.

The world on which Australians, in their slightly apprehensive affluence, look out, is surrounded on three sides by great oceans, and dominated by an Asian land mass the population of which increases each year by about three times the whole Australian population. Australians are feeling the winds colder around their ears. They are troubled by what may come out of Asia, and by the creeping Soviet expansion of influence and capacity throughout the region. This is still limited, and in selected areas, but there is no ready counterforce as in Europe.

It seems extremely unlikely that the United States will be engaged in war in Southeast Asia during the remainder of this century. If this is so, it will have little need of Australia, and the ANZUS Treaty will become increasingly a formality, an excuse for occasional rhetoric, and unfortunately also a specious rationalization for continued Australian reluctance to come to terms with its environment. An exception to this thesis could develop if Australia becomes important to American policies to protect the flow of Middle Eastern oil.

No country is crouched ready to spring at Australia, but equally no major power can fail to notice its immense natural wealth, its open spaces, and the indolent spirit of much of the populace. Australians have become involved in Asia, but mostly as tourists, traders and students, for they are still culturally part of Europe and economically part of the developed world. They are groping self-consciously for their own identity while blandly deferring the problem of security—not because of economic restraints but because of a habit of hedonism, procrastination and dependence. As repeatedly demonstrated in war, Australians have a formidable fighting capacity when aroused, but it takes a lot to arouse them.

Australia is accepted within its own region as being in it but not quite of it, which is precisely how Australia sees itself. It is amiable, brash, rich, underpopulated, generally helpful. It has no axe to grind, but none to wield either. It is effectively excluded from ASEAN, although welcomed as a donor to the Association's development projects. It is a country with which modest links can be built, but from which little real help can be expected.

In the world community, Australia is almost ubiquitously, professionally represented—in the capitals of nations, and in the ever-increasing permanent and ad hoc conference diplomacy. Its representatives are hard-working, but not noticeably more idealistic or altruistic than most others. Mr. Whitlam's fine words were

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hard to live up to; they were becoming as hard for him, when he left office, as they became for his successor.

But what *is* Australia? Australians themselves are not quite sure. They want to have the best of all worlds, but they may not indefinitely be given the opportunity.

The long, euphoric days of Menzies are over. The brief, exciting, somewhat flashy experiment of Whitlam is over. The new government, which looks like being in office for several years, has the task of standing Australia firmly on its own feet, in a still largely alien although not presently hostile environment; to set foreign policy at its proper level, without pretensions and without obsequiousness. Mr. Fraser is without pretensions and without obsequiousness, but it is by no means obvious that he and his party and coalition, elected at a time of political turbulence and economic recession, have the ideas, the will or the power to rally the Australian people to preserve their place in the southern sun.

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John Lewis Gaddis

CONTAINMENT: A REASSESSMENT

"I felt] like one who has inadvertently loosened a large boulder from the top of a cliff and now helplessly witnesses its path of destruction in the valley below, shuddering and wincing at each successive glimpse of disaster."[1] So George F. Kennan described the consequences of having published in this journal, 30 years ago this month, the article which introduced the term "containment" to the world. Attributed only to a "Mr. X" in order to protect the author's position as Director of the State Department's new Policy Planning Staff, the article, entitled "The Sources of Soviet Conduct," was nonetheless quickly revealed by Arthur Krock as having come from Kennan's pen. Ironically, its very anonymity assured it a conspicuousness Kennan's subsequent efforts to clarify his views never attained.

No article in the history of *Foreign Affairs* has been more frequently reprinted; none, it would also appear safe to say, has lent itself to more variant interpretations. "Containment" has been defined as a global commitment to resist communism everywhere; as a passive, negative condemnation of millions to enslavement behind the iron curtain; as a blueprint for the domination of the world by American imperialism, and as the short-sighted acquiescence of a dutiful giant in the process of being nibbled away by midgets. Its critics have ranged from Robert A. Taft and John Foster Dulles to Walter Lippmann and J. William Fulbright; it has been invoked to justify such diverse enterprises as the Marshall Plan, NATO, the Korean "police action," the Eisenhower Doctrine, and, to its inventor's most intense discomfort, the war in Vietnam.

Historians have argued for years over what Kennan meant to say in the "X" article, and Kennan himself has attempted to resolve this issue in his *Memoirs*. But recollections are, of necessity, selective; critics have charged as well that elements of self-justification entered into Kennan's account.[2] Within the past few years, however, thanks to the declassification of National Security Council and Policy Planning Staff documents from the 1947–1949 period and the partial opening of the Kennan Papers, it has become possible to compare what Kennan said publicly and in his *Memoirs* with the positions he was taking inside the government at the time. These sources confirm Kennan's assertion that the "X" article was an incomplete and misleading reflection of his views. They also suggest that "containment," properly understood, is by no means an outmoded concept; that aspects of it bear striking relevance to problems the Carter Admin-

[1] George F. Kennan, *Memoirs: 1925–1950,* Boston: Little Brown, 1967, p. 356.

[2] See, for example, Eduard M. Mark, "What Kind of Containment?" in Thomas G. Paterson, ed., *Containment and the Cold War,* Reading, Mass.: Addison-Wesley, 1973, pp. 96–109; and C. Ben Wright, "Mr. 'X' and Containment," *Slavic Review,* XXXV, March 1976, pp. 1–31.

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istration is likely to confront as it enters the fourth decade of what we may still regard, with some qualifications, as the cold war.

II

One of several paradoxes associated with the "X" article is that it was taken at the time, and continues to be remembered, as a work of prescription. Such was not its primary emphasis. Rather, Kennan devoted most of the piece to an explanation of Soviet hostility toward the West. Of the article's 17 pages, only three contained what might be considered recommendations for action by the United States, and these were couched only in general terms. For a document hailed as providing a new strategic concept for the postwar world, the "X" article in fact said remarkably little about strategy.

Kennan attributed Soviet hostility to a deep and brooding sense of uneasiness on the part of Kremlin leaders. This phenomenon reflected, to some extent, historical experience: lacking protective geographical barriers and subject, throughout its history, to recurrent invasion, the Russian state had never enjoyed the luxury of free security Americans had always taken for granted. Partly, the tendency arose also out of the conspiratorial habits formed by Bolshevik organizers during years in the underground: survival, for them, had come to depend on trusting no one. It was these two forms of insecurity—historical and organizational—which accounted for the peculiar and difficult behavior of the Soviet Union under Josef Stalin.

Ideology, in Kennan's scheme of things, performed several functions. It served to legitimize an illegitimate regime: if one could not claim to rule by the will of God, as had the Russian tsars, then ruling by the will of history, in the form of the Marxian dialectic, was the next best thing. It also provided justification for the repression without which Soviet leaders, unimaginative as they were, did not know how to rule: as long as most of the world was capitalist, harsh measures could be portrayed as necessary to protect the leading communist state. Finally, ideology was significant because it associated the Soviet Union with revolutionary aspirants in other countries, thus giving the Kremlin, through the international communist movement, an instrument with which to project influence beyond its borders.

But Kennan did not see ideology as a determinant of Soviet policy. The body of doctrine which made up communism was so amorphous that it required an intermediary to relate and apply it to the real world. This circumstance placed that intermediary—the Soviet government—in a position to say what ideology was at any given moment. "The leadership is at liberty," Kennan wrote,

> to put forward for tactical purposes any particular thesis which it finds useful to the cause at any particular moment and to require the faithful and unquestioning acceptance of that thesis by the members of the movement as a whole. This means that truth is not a constant but is actually created, for all intents and purposes, by the Soviet leaders themselves. It may vary from week to week, from month to month. It is nothing absolute and immutable.

Communism, then, was not so much a guide to action as a justification for action already decided upon. It was true, Kennan implied, that Stalin might not feel secure until he had come to dominate the entire world, but that attitude grew out of the dictator's own unfathomable sense of insecurity, not out of any principled commitment to the goal of an international classless society.

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Kennan regarded Soviet expansionism as both easier and more difficult to deal with than that of Napoleon or Hitler: easier because it had no fixed timetable and would yield in the face of resistance; more difficult because of its persistence, its refusal to be discouraged by individual setbacks. It was within this context that Kennan made his call for a "long-term, patient but firm and vigilant containment of Russian expansive tendencies." "Soviet pressure against the free institutions of the western world," he continued, "is something that can be contained by the adroit and vigilant application of counterforce at a series of constantly shifting geographical and political points, corresponding to the shifts and manoeuvres of Soviet policy."

Prospects for such an approach were favorable, Kennan maintained, because of the vulnerabilities which existed within Soviet society. These included the human costs of forced industrialization and terror, the destruction of war, the uneven nature of Soviet economic development, the problem of succession after Stalin's death, potential antagonism between the Party leadership and its rank and file, and the possibility that revolutionary movements outside the U.S.S.R. might look to places other than Moscow for inspiration and leadership. Kennan concluded this section of his article with a reference to the proposition, advanced in Thomas Mann's *Buddenbrooks,* that "human institutions often show the greatest outward brilliance at a moment when inner decay is in reality farthest advanced."

Given these circumstances, the United States could not expect to enjoy political intimacy with the Soviet regime, but neither should it regard war as inevitable. Nor did it have to resign itself to an indefinite policy of "holding the line and hoping for the best," for "it is entirely possible for the United States to influence by its actions the internal developments, both within Russia and throughout the international Communist movement, by which Russian policy is largely determined." This could be done by its "creat[ing] among the peoples of the world generally the impression of a country which knows what it wants, which is coping successfully with the problems of its internal life and with the responsibilities of a World Power, and which has a spiritual vitality capable of holding its own among the major ideological currents of the time." The result, in due course, would be "either the break-up or the gradual mellowing of Soviet power," for the simple reason that "no mystical, Messianic movement—and particularly not that of the Kremlin—can face frustation indefinitely without eventually adjusting itself in one way or another to the logic of that state of affairs." All that was needed, then, was for the United States to "measure up to its own best traditions and prove itself worthy of preservation as a great nation."

III

Such, in brief, was the substance of the "X" article. It is hardly necessary to dwell on the criticisms it provoked, first and most eloquently from Walter Lippmann, who dismissed containment as a "strategic monstrosity," and then from a host of other commentators, on both the Right and the Left. Basically, these complaints boiled down to three points: (1) that Kennan's determination "to confront the Russians with unalterable counterforce at every point where they show signs of encroaching upon the interests of a peaceful and stable world" would allow Moscow to determine the time, place, and nature of competition, and would as a consequence risk the commitment of American resources on unsuitable terrain; (2) that Kennan failed to make clear whether the roots of Soviet behavior were ideological or national, and so obscured the distinction

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between Russian expansionism and international communism; and (3) that by calling for actions which could only reinforce Stalin's paranoia, Kennan was precluding any movement toward the disengagement of Soviet and American forces in Europe, and an eventual negotiated settlement of outstanding differences.[3]

Certainly the first criticism was justified: Kennan's language did appear to imply relinquishing the strategic initiative to the Russians. Such a course of action would mean, Lippmann charged, that "for ten or fifteen years Moscow, not Washington, would define the issues, would make the challenges, would select the ground where the conflict was to be waged, and would choose the weapons." Containment could only be implemented "by recruiting, subsidizing and supporting a heterogenous array of satellites, clients, dependents and puppets, . . . a coalition of disorganized, disunited, feeble or disorderly nations, tribes, and factions around the perimeter of the Soviet Union."

In fact, though, such lack of discrimination in defining interests and choosing allies was the last thing Kennan favored. We know from Joseph Jones' book that he opposed the sweeping language of the Truman Doctrine; the first Policy Planning Staff paper, written in May 1947, advised taking steps to correct the impression that "the Truman Doctrine is a blank check to give economic and military aid to any area in the world where the Communists show signs of being successful." "It may be that we have undertaken too much," Kennan admitted to a National War College audience the following month; "there is a serious gap . . . between the things we have set out to do and our capabilities for doing them." Another Policy Planning Staff paper, completed in July, noted that "the extent of the calls on this country is so great in relation to our resources that we could not contemplate assistance to others on any universal basis, even if this were desirable. A beginning would have to be made somewhere, and the best place for a beginning is obviously in Europe."[4]

Kennan's emphasis on limited means, and on the consequent need to differentiate interests, comes through clearly in a comprehensive "Resumé of [the] World Situation" which he prepared for Secretary of State George C. Marshall in November 1947. The effort to stop the Soviet Union's political advance had "stretched our resources dangerously far in several respects," he argued; "it is clearly unwise for us to continue the attempt to carry alone, or largely single-handed, the opposition to Soviet expansion. It is urgently necessary for us to restore something of the balance of power in Europe and Asia by strengthening local forces of independence and by getting them to assume part of the burden." Significantly, Kennan described the European Recovery Program, then just getting underway, as "probably . . . the last major effort of this nature which our people could, or should, make."[5]

[3] Walter Lippmann, *The Cold War: A Study in U.S. Foreign Policy*, New York: Harper, 1947. See also Charles Gati, "What Containment Meant," *Foreign Policy*, No. 7, Summer 1972, pp 24–36; and Thomas G. Paterson, "The Search for Meaning: George F. Kennan and American Foreign Policy," in Frank J. Merli and Theodore A. Wilson, eds., *Makers of American Foreign Policy*, New York: Scribner, 1974, pp. 575–576.

[4] Joseph M. Jones, *The Fifteen Weeks (February 21–June 5, 1947)*, New York: Viking, 1955, pp. 154–155; Kennan to Dean Acheson, May 23, 1947, *Foreign Relations of the United States: 1947 (hereinafter Foreign Relations: 1947)*, III, Washington: GPO, p. 229; Kennan National War College lecture, "Planning of Foreign Policy," June 18, 1947, George F. Kennan Papers (hereinafter Kennan Papers), Princeton University, Box 17; PPS 4, "Certain Aspects of the European Recovery Program from the United States Standpoint (Preliminary Report)," July 23, 1947, Policy Planning Files, Department of State.

[5] PPS 13, "Resumé of World Situation," November 6, 1947, *Foreign Relations: 1947*, I, pp. 772–773.

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Kennan held out little hope for American interests in the Far East, not because that region was unimportant, but because the United States lacked the capacity to affect events there in any decisive way. "It is urgently necessary," he wrote in February 1948, "that we recognize our own limitations as a moral and ideological force among the Asiatic peoples." After conversations with General Douglas MacArthur in Tokyo in March, Kennan expressed support for a "political-strategic concept" based on the notion that "while we would endeavor to influence events on the mainland of Asia in ways favorable to our security, we would not regard any mainland areas as vital to us." Such an approach meant, in Kennan's view, no further involvement in the Chinese civil war, the gradual withdrawal of U.S. forces from South Korea, the demilitarization and neutralization of Japan and the Philippines, and the maintenance of American bases on Okinawa, Guam, and the former Japanese-mandated islands.[6]

"Repeatedly," Kennan wrote in his *Memoirs*, "I expressed in talks and lectures the view that there were only five regions of the world—the United States, the United Kingdom, the Rhine valley with adjacent industrial areas, the Soviet Union, and Japan—where the sinews of modern military strength could be produced in quantity; I pointed out that only one of these was under Communist control; and I defined the main task of containment, accordingly, as one of seeing to it that none of the remaining ones fell under such control."[7] The documents now available leave little doubt that this was, in fact, Kennan's view at the time.[8] One can only marvel, as Kennan does in his *Memoirs*, at the extent to which the "X" article managed to convey precisely the opposite impression.

The confusion arose largely out of Kennan's failure to explain what he meant by "counterforce." Without further qualification the word suggested, and was taken by Lippmann to mean, military resistance to Soviet expansion wherever it occurred. But a preliminary version of the "X" article, found in the Kennan Papers, conveys a very different impression. The passage is worth quoting in full:

> The problem of meeting the Kremlin in international affairs therefore boils down to this: Its inherent expansive tendencies must be firmly contained at all times by counter-pressure which makes it constantly evident that attempts to break through this containment would be detrimental to *Soviet* interests. The irritating by-products of an ideology indispensable to the Soviet regime for internal reasons must not be allowed to become the cause of hysterical alarm or of tragic despair among those abroad who are working towards a happier association of the Russian people with the world community of nations. The United States, in particular, must demonstrate by its own self-confidence and patience, but particularly by the integrity and dignity of its example, that the true glory of the Russian national effort can find its expression only in peaceful association with other peoples and not in attempts to subjugate and dominate those peoples. Such an attitude on the part of this country would have with it the deepest logic of history; and in the long run it could not fail to carry conviction and to find reflection in the development of Russia's internal political life and, accordingly, in the Soviet concept of Russia's place in international affairs.[9]

[6] PPS 23, "Review of Current Trends: U.S. Foreign Policy," February 24, 1948, *Foreign Relations: 1948*, I, pp. 524–525; Kennan to George C. Marshall, March 14, 1948, *ibid.*, p. 534. See also Kennan's presentation to the Secretary of the Navy's Council, January 14, 1948, Kennan Papers, Box 17.

[7] Kennan, *Memoirs: 1925–1950*, p. 359.

[8] See, for example, Kennan's National War College lecture, "Contemporary Problems of Foreign Policy," September 17, 1948, Kennan Papers, Box 17.

[9] Unpublished Kennan paper, "The Soviet Way of Thought and Its Effect on Foreign Policy," January 24, 1947, Kennan Papers, Box 16.

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One need hardly emphasize the difference between this passage, which describes "counter-pressure" as an effort to encourage, by example, long-term changes in the Soviet concept of international relations, and the "X" article's apparent endorsement of "counterforce," to be applied in circumstances which the Russians could largely control. It is a startling demonstration of the misunderstandings which can flow from a slight shift of phrase, combined with an excessive devotion to the principle of economy in prose.

A second point on which the "X" article was misunderstood had to do with the question of what was to be contained: Soviet expansionism or international communism. Lippmann accused Kennan of having become "exclusively preoccupied with Marxian ideology, and with the communist revolution." "It was the mighty power of the Red Army, not the ideology of Karl Marx, which enabled the Russian government to expand its frontiers," Lippmann pointed out; "the policy which I suggest is . . . to divide the Red Army from the Red International."[10]

It is true that Kennan, like most observers at the time, used the terms "communism" and "Soviet expansionism" almost interchangeably. But a careful reading of the "X" article would hardly sustain the argument that it was "exclusively preoccupied" with ideology; rather, as noted earlier, it emphasized the malleable nature of communism and the extent to which ideology reflected Soviet national interests. "The role of ideology in Soviet political society, while of tremendous importance, is not primarily that of a basic determinant of political action," Kennan wrote in his preliminary version of the "X" article. "It is rather a prism through which Soviet eyes must view the world, and an indispensable vehicle for the translation into words and actions of impulses and aspirations which have their origin deeper still. . . . But it is important to remember that its bearing is on coloration of background, on form of expression, and on method of execution, rather than on basic aim."[11]

Kennan drew from this the conclusion that a communist regime beyond the reach of Soviet military or police power would pose no great threat to American security, and might even offer certain advantages. As he explained at the University of Virginia in February 1947:

> Perhaps this bubble cannot really be pricked until one of these parties has come into power in a country not contiguous to the borders of the direct military power of Russia. . . . A communist regime in power in some such country which either failed to meet its responsibilities and discredited itself in the eyes of the people or which turned on its masters, repudiated the Kremlin's authority, and bit the hand that had reared it, might be more favorable to the interests of this country and of world peace in the long run than an unscrupulous opposition party spewing slander from the safe vantage point of irresponsibility.

Kennan went on to predict in this lecture that if the Chinese Communists ever gained control in China, "the men in the Kremlin would suddenly discover that this fluid subtle oriental movement which they thought they held in the palm of their hand had quietly oozed away between their fingers and that there was nothing left there but a ceremonious Chinese bow and a polite and inscrutable Chinese giggle."[12]

[10] Lippmann, *The Cold War*, pp. 31, 33–34, 40.

[11] Kennan, *loc. cit.*, Footnote 9.

[12] Kennan University of Virginia lecture, "Russian-American Relations," February 20, 1947, Kennan Papers, Box 16.

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The idea of encouraging tension between the Soviet Union and the international communist movement lay behind several of Kennan's most important policy recommendations during this period. His suggestion, in the summer of 1947, that Marshall Plan aid be offered to the Soviet Union and its East European satellites was an attempt, not only to place the onus for dividing Europe on the Russians, but also to strain the relationship between the Kremlin and its clients. Early in 1948, he recommended relating the level of U.S. naval and air activity in the Eastern Mediterranean to the level of communist activity in Italy and Greece, with the thought that a conflict would thereby be produced between the interests of Greek and Italian Communists on the one hand, and Soviet security requirements on the other. "In conflicts of this sort," he noted, "the interests of narrow Soviet nationalism usually win."[13]

Given this background, it is hardly surprising that Kennan welcomed Tito's break with Moscow in the summer of 1948. As a Policy Planning Staff study noted in June:

> The international communist movement will never be able to make good entirely the damage done by this development. For the first time in the history of the movement, a servant of the international communist movement controlling territory, armed forces, and a political organization, has defied, with at least temporary success, the authority of the Kremlin. This example will be noted by other communists everywhere. Eventually, the non-Russian communists will come to appreciate that they have no future as servants of Kremlin policies.

Kennan cited a communist China as one country where Titoist tendencies might manifest themselves; so, too, were the remaining satellites in Eastern Europe. The first comprehensive National Security Council study on that part of the world, which originated as a Policy Planning Staff document and was approved by President Truman in December 1949, called for fostering "a heretical drifting-away process on the part of the satellite states." Such a trend might eventually result, it noted, in the formation of "two opposing blocs in the communist world," a situation which could "provide us with an opportunity to operate on the basis of a balance in the communist world, and to foster the tendencies toward accommodation with the West implicit in such a state of affairs."[14]

Behind this anticipation of polycentrism within the international communist movement was a simple confidence in the durability of nationalism, and in the Russians' chronic inability to avoid alienating those with whom they came in contact. "The actions of people in power are often controlled far more by the circumstances in which they are obliged to exercise that power than by the ideas and principles which animated them when they were in opposition," a Policy Planning Staff study concluded in August 1948. Moreover,

> Kremlin leaders are so over-bearing and so cynical in the discipline they impose on their followers that few can stand their authority for very long. . . . Conditions are therefore favorable to a concerted effort on our part designed to take advantage of

[13] PPS 23, February 24, 1948, *Foreign Relations: 1948,* I. p. 519. See also Kennan notes for Secretary of State Marshall, July 21, 1947, *Foreign Relations: 1947,* III, p. 335.

[14] PPS 35, "The Attitude of This Government Towards Events in Yugoslavia," June 30, 1948, *Foreign Relations: 1948,* IV, p. 1081; NSC 58/2, "United States Policy Toward the Soviet Satellite States in Eastern Europe," December 8, 1949, National Security Council Files, Modern Military Records Division, National Archives, GPO. See also PPS 39/1,"U.S. Policy Toward China," November 23, 1948, *Foreign Relations: 1948,* VIII, p. 208.

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> Soviet mistakes and of the rifts that have appeared, and to promote the steady deterioration of the structure of moral influence by which the authority of the Kremlin has been carried to peoples far beyond the reach of Soviet police power.[15]

What these documents show, then, is that there was no contradiction between the concepts of "containment" and "liberation," if by that latter term is meant the cautious encouragement of centrifugal tendencies within the international communist movement. But it should be noted that this approach implied "liberation" only from Soviet control, not necessarily from communism. "We are not necessarily always against the expansion of communism, and certainly not always against it to the same degree in every area," Kennan observed late in 1947; "it all depends on circumstances."[16] If ideology reflected rather than determined state interests, it followed that communism posed a threat to American security only where linked to, and the reliable instrument of, a state like the Soviet Union, which combined hostility with the ability to do something about it.

The third major criticism which Lippmann made regarding the "X" article was that "the policy of containment . . . does not have as its objective a settlement of the conflict with Russia." Lippmann went on to urge the mutual withdrawal of "non-European" armies from Europe.[17] It is true that the "X" article made no specific proposals along these lines, although it did foresee, over an indeterminate length of time, a gradual "mellowing" of the Soviet regime which might make it possible to relax tensions. The documents show, though, that while Kennan was not sanguine about the prospects, he was prepared to explore opportunities for negotiations even before Stalin's death; that his own proposal for disengagement in Europe, which caused such a furor when broached publicly in the 1957 Reith lectures, had in fact been advanced tentatively within the government as early as 1948.

Kennan had always taken the position that negotiations required not so much strength as self-confidence. Military power had its uses, he acknowledged: "You have no idea how much it contributes to the general politeness and pleasantness of diplomacy when you have a little quiet armed force in the background." But the military balance alone would not determine the course of negotiations, simply because weapons and troop levels were only one of several components of power on the international scene. "Remember that . . . as things stand today," he told a National War College audience in October 1947, "it is not Russian military power which is threatening us, it is Russian political power. . . . If it is not entirely a military threat, I doubt that it can be effectively met entirely by military means." Kennan had concluded, by the end of 1947, that the psychological impact of the Marshall Plan had restored a substantial degree of self-confidence in Europe, and had provided "the greatest shock to Soviet foreign policy since the invasion of Russia by the Germans in 1941."[18] If those trends continued, he believed, the time would be right to begin investigating prospects for accommodation with Moscow.

[15] PPS 38, "United States Objectives With Respect to Russia," August 18, 1948, Policy Planning Staff Files, Department of State.

[16] Kennan talk to the Board of Governors of the Federal Reserve System, December 1, 1947, and to the Secretary of the Navy's Council, December 3, 1947, Kennan Papers, Box 17. See also George F. Kennan, *Realities of American Foreign Policy*, Princeton: Princeton University Press, 1954, p. 76.

[17] Lippmann, *The Cold War*, pp. 35, 59.

[18] Transcript, Kennan post-lecture comment, National War College, September 16, 1946, Kennan Papers, Box 16. See also Kennan National War College lecture, "Soviet Diplomacy," October 6, 1947, *ibid.*, Box 17; Kennan talk to Business Advisory Committee, Department of Commerce, September 24, 1947, *ibid.*; and PPS 13, November 6, 1947, *Foreign Relations: 1947*, I, p. 772.

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In a February 1948 Policy Planning Staff paper, Kennan advocated preparations for negotiations with the Russians aimed at persuading them "(a) to reduce communist pressures elsewhere in Europe and the Middle East to a point where we can afford to withdraw all our armed forces from the continent and the Mediterranean; and (b) to acquiesce thereafter in a prolonged period of stability in Europe." "The day will come when the Russians will find it to their advantage to talk to us," Kennan wrote two months later in an unsent letter to Walter Lippmann, "and it may be sooner than many of us suspect. That day will come when they have arrived at the conclusion that they cannot have what they want *without* talking to us."[19]

Underlying Kennan's position was the assumption that the Soviet Union was not impervious to outside influences; that change was at least as inevitable there as in the West, and that, through careful diplomacy, such changes could be turned to the West's advantage. As a Policy Planning study put it:

> The Soviet leaders are prepared to recognize *situations*, if not arguments. If, therefore, situations can be created in which it is clearly not to the advantage of their power to emphasize the elements of conflict in their relations with the outside world, then their actions, and even the tenor of their propaganda to their own people, *can* be modified.[20]

It was this belief in the mutability of ideology, an idea Kennan had expressed clearly but to little effect in the "X" article, which formed the basis of his argument that Soviet hostility toward the outside world need not last forever, and that it was in the interests of the United States to be prepared to benefit from such modifications in the Russians' behavior as might arise.

Overall, though, the "X" article expressed Kennan's concept of containment in an inaccurate and incomplete manner. Kennan's admitted imprecision of language contributed to this misunderstanding, as did the fact that his official position precluded public clarification. Lippmann compounded the problem by focusing his objections on selected portions of the article, ignoring especially its broader implications regarding the role of ideology in the Soviet state. But whatever the causes of the original confusion, there is sufficient evidence in the newly released documents to corroborate Kennan's argument, made ten years ago in his *Memoirs*, that the "X" article should no longer be taken as the definitive statement of what he meant by "containment."[21]

IV

"It was not 'containment' that failed," Kennan wrote in those *Memoirs;* "it was the intended follow-up that never occurred." There is, in fact, much to be said for viewing containment as a process involving several stages: first, restoration of a balance of power in areas threatened by Soviet expansionism; second, reduction of the Soviet Union's influence beyond its borders through the cautious exploitation of antagonisms between Moscow and the international communist movement; and third, as a long-range objective, alteration of the Soviet concept of international relations as a means of facilitating a negotiated settlement of

[19] PPS 23, February 24, 1948, No. I, p. 522; Kennan to Lippmann, April 6, 1948, Kennan Papers, Box 17.

[20] PPS 38, August 18, 1948.

[21] Kennan, *Memoirs: 1925–1950*, pp. 363–367.

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outstanding differences.[22] Only the first of these stages can be said to have been fully implemented during the early years of the cold war; ironically, its very success impeded progress toward the other two.

The problem was the extent to which Kennan's strategy relied on psychology. He sought to deny key industrial areas to the Russians, but to do so primarily by instilling a sense of self-confidence in the minds of the people who lived there. That approach placed his program at the mercy of whatever fears, rational or irrational, those people might hold.

One such fear was the prospect of Soviet military attack, and the possibility that the United States might not be able to do anything about it. Kennan thought this fear groundless, but in the end he was forced to acknowledge that self-confidence in Western Europe would not develop without a specific security guarantee by the United States. Another concern was the possibility that German militarism might revive; that prospect made the indefinite partition of Germany more attractive to most West Europeans than reunification. The difficulty with such measures as the North Atlantic Treaty and the establishment of an independent West German state was that they tended to perpetuate the division of Europe into two hostile camps, thereby delaying the negotiations leading toward Soviet and American disengagement which Kennan thought essential for stability in that part of the world. Nor would it be easy to call a halt once the process of forming alliances had begun: "There is no logical stopping point in the development of a system of anti-Russian alliances," Kennan wrote late in 1948, "until that system has circled the globe and has embraced all the non-communist countries of Europe, Asia, and Africa."[23]

Another unanticipated difficulty involved the psychological effect communist victories in countries not vital to American security could have in those which were. It is significant that Kennan supported aid to Greece and Turkey in 1947, not because those states were on his list of key industrial regions which had to be kept out of Russian hands, but because of the impression their collapse would have produced in Western Europe, which was such a region. For similar reasons, he endorsed the decision to aid South Korea in 1950, even though three years earlier he had described the American position there as untenable, and had advocated withdrawal as soon as possible.[24] It was not all that difficult, then, to slide from a belief that the balance of power required nothing more than a limited application of effort in a few key locations to a conviction that that balance could be maintained only by massive expenditures of energy in peripheral areas.

Nor was it a simple matter to maintain the distinction between Soviet expansionism and international communism. Confusion on this point stemmed partly from the Truman Administration's imprecise public rhetoric: in order to get its foreign aid program through the Congress, the Administration had found it necessary to present the Soviet threat in global terms, an approach which did not encourage differentiation between varieties of communism. The heated political atmosphere of the period also caused problems: even before Senator Joseph R. McCarthy had given his name to the syndrome, expressions of willingness to deal with communists anywhere had begun to risk accusations of disloyalty, even

[22] *Ibid.*, p. 365; interview with George F. Kennan, Princeton, New Jersey, February 2, 1977.

[23] PPS 43, "Considerations Affecting the Conclusion of a North Atlantic Security Pact," November 24, 1948, *Foreign Relations: 1948*, III, p. 286.

[24] Kennan, *Memoirs: 1925–1950*, pp. 316–319, 484–486. See also PPS 13, November 6, 1947, *Foreign Relations: 1947*, p. 776.

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treason. Reinforcing these tendencies was an increasingly widespread habit of using ideology as a predictive instrument, of assuming that ideological orientation took precedence over other influences in determining the behavior of states, and could be used as a basis upon which to anticipate their behavior. The combined effect of these trends was to inhibit further efforts to exploit differences within the international communist movement.

Yet another problem with Kennan's strategy was its emphasis on Soviet intentions rather than on capabilities; on what the Russians were likely to do, rather than on what they could do.[25] This was not an easy approach to sustain because it ran up against the national security bureaucracy's proclivity for worst-case analysis. It required accepting on faith the notion that the Russians did not want a war when in fact many of their actions—Czechoslovakia, Berlin, Korea—appeared to indicate the opposite. Kennan's emphasis on intentions became even harder to maintain once it had become clear that the Soviet Union had the potential, should war come, of inflicting substantial damage on the United States and its allies. News of the Russian atomic bomb made it appear much less risky to base military planning on Soviet capabilities rather than intentions; the price, though, was a persistent overestimation of Soviet strength, and an equally persistent lack of enthusiasm for negotiations until perceived strategic inadequacies had been remedied.

Finally, a fundamental assumption underlying Kennan's concept of containment had been the awareness that the United States lacked the resources to sustain worldwide commitments, and that, accordingly, hard choices would have to be made between what it would have to accept, and what it could reasonably expect to change. American officials never entirely lost sight of that fact, but the conclusions of the strategic reassessment which took place early in 1950—that means were capable of greater expansion than had been thought—had strong appeal; there ensued, as a result, a certain loss of sensitivity to the relationship between costs and commitments which Kennan had so strongly stressed.[26]

There was, in all of these problems, a common thread: all of them—preoccupation with building alliances, the use of ideology as a predictive instrument, concern with credibility, the emphasis on commitments and neglect of costs—reflect excessive attention to the processes of diplomacy, and a corresponding tendency to lose sight of objectives. They reflect an inclination to let strategy dictate policy rather than the other way around. To the extent that the United States contributed to the perpetuation of the cold war, it was in large part as a result of this confusion between ends and means, of the habit of concentrating so much on the mechanisms of containment as to lose sight of precisely what it was that strategy was supposed to contain.

But if Kennan's critics within the government preoccupied themselves excessively with processes, it must be noted that he himself leaned too far in the other direction by failing to devote sufficient attention to the problems of implementing containment. Skeptical of the efficacy of written policy statements as guides to action, Kennan relied simply on the continued presence of qualified experts to guide the hand of policymakers, much as he had done with Secretary of State

[25] See Kennan, *Memoirs: 1925–1950,* p. 497; and George F. Kennan, "The United States and the Soviet Union, 1917–1976," *Foreign Affairs*, July 1976, pp. 681–682.

[26] NSC 68, "United States Objectives and Programs for National Security," April 14, 1950, *Naval War College Review*, Vol. XXVII, No. 6, May–June 1975, pp. 51–108. See also Paul Y. Hammond, "NSC 68: Prologue to Rearmament," in Warner Schilling, Paul Y. Hammond, and Glenn H. Snyder, eds., *Strategy, Politics, and Defense Budgets,* New York: Columbia University Press, 1962, pp. 267–278.

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Marshall between 1947 and 1949. He gave little thought to what might happen if those policymakers, or the bureaucracies they controlled, failed to seek such advice.[27] Nor did he concern himself adequately with the question of how self-confidence could be maintained, whether within the government, with the general public, or among allies overseas, while at the same time making the sharp distinctions between vital and peripheral interests, varieties of communism, and adversary capabilities and intentions upon which his strategy depended so heavily.

Partly because of this combination of difficulties (and partly also because of external circumstances), it would not be until the early 1970s that the United States would undertake a sustained effort to implement what Kennan had regarded as "the intended follow-up" to containment—the exploitation of fissures within the international communist movement, and the exploration with the Russians of opportunities for reducing tensions through negotiations. There is irony in the fact that these initiatives occurred during the administration of a President who, in his early career, had denounced Kennan's ideas as passive and defeatist. The diplomacy of Richard M. Nixon and Henry A. Kissinger was not so much a conceptual breakthrough, then, as it was a return to the unimplemented aspects of containment Kennan had proposed a quarter of a century before.

V

To a considerable degree, the original objectives of containment have now been achieved. Whether because of the nuclear weapons stalemate or the diffusion of power from large states to small, there exists today a more stable international equilibrium than most observers 30 years ago would have thought possible. Certainly a split has developed between the Soviet Union and the international communist movement: the word "communist" now takes in such a diversity of systems and personalities as to render it little more than a semantic expression. Nor can it be denied that changes have taken place in the way the Russians view the international order. There is room for debate over how far they have come in accommodating themselves to it, but there can be little question that "mellowing" has taken place since Stalin's day.

But these things have happened more in spite of than because of American policy. The United States did, of course, play a vital role in restoring the balance of power in Europe after World War II. By maintaining its end of the nuclear balance, it contributed further to that stability. But the other great force which has constrained the superpowers—the rise of nationalism—has proceeded for the most part independently of American efforts; by the early 1950s Washington officials had lost sight of Kennan's idea of working with nationalism to contain the Russians. Similarly, the American proclivity for employing ideology as a predictive instrument may well have delayed fragmentation of the communist monolith. It was no small feat to begin treating communism as a unit at precisely

[27] It is interesting to note in this connection that Kennan, in May 1948, recommended that the CIA be given a covert political action capability, with the understanding that its employment would be strictly controlled by the Departments of State, Defense, and the National Security Council. "It did not work out at all the way I had conceived it," he later admitted. Quoted in Anne Karalekas, "History of the Central Intelligence Agency," in U.S. Senate, 94th Cong., 2nd Sess., Select Committee to Study Government Operations With Respect to Intelligence Activities, *Final Report: Supplementary Detailed Staff Reports on Foreign and Military Intelligence: Book IV*, Washington: GPO, 1976, p. 31. See also George F. Kennan, *Memoirs: 1950–1963*, Boston: Little Brown, 1972, pp. 202–203.

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the moment, with the emergence of Tito in Yugoslavia and Mao in China, that it ceased to be one. Nor has the United States helped all that much in smoothing the Kremlin's path toward a new view of the international order. By refraining for so long from negotiating with the Russians, we very likely confirmed their fears of the outside world; more recently, in the view of some, we have negotiated too often, thereby encouraging Moscow to take the outside world too much for granted.

There is need to align American policies, to a greater extent than has been done in the recent past, with what is already happening in the world—to let events work for us, rather than against us. Kennan argued 30 years ago that the United States could more easily find security in a diverse world than could the Russians. There is no reason to think that any less true today. Possibly there should be a new name for this strategy: "containment" always was something of a misnomer, suggesting as it did the disconcerting precedents of Sisyphus, or the boy with a finger in the dike. But whatever the label, the assumption behind Kennan's argument in this respect remains valid—that the United States can tolerate diversity with greater self-confidence than can the Soviet Union, and that, as a consequence, the overall "correlation of forces" in the world need not be regarded as necessarily inimical to our interests.

There are other ways in which Kennan's ideas from the 1940s might be fruitfully applied to contemporary affairs. One would be to stop using ideology as a predictive instrument. It would be helpful to recognize that we have been no more successful in anticipating the behavior of communist states on the basis of their ideological orientation than they have been in anticipating our own. Compared to such entrenched phenomena as nationalism, racism, greed, or sheer human intractability, communism is today a relatively insignificant determinant of events on the international scene, unless of course we choose to impart significance to it by giving it more attention than it deserves. The objective of containment was, and still should be, to limit the expansion of Soviet influence in the world. To allow energies and resources to be diverted to the task of opposing something called "international communism" is not only to pervert the intent of Kennan's strategy; it is to embark in pursuit of a phantom.

We can also learn from Kennan a certain skepticism regarding the dangers posed by Soviet hegemonic aspirations. Because the Russians handle diversity badly, their attempts to expand influence tend to take on anti-national characteristics, and to generate in time their own resistance. "One must not be too frightened," Kennan observed in his *Memoirs*,

> of those who aspire to world domination. No one people is great enough to establish a world hegemony. There are built-in impediments to the permanent exertion by any power of dominant influence in areas which it is unable to garrison and police, or at least to overshadow from positions of close proximity, by its own troops.[28]

This is nothing more than a recognition of the "staying power" of nationalism, and of the inescapable effects of what Clausewitz a century and a half ago called "friction." (The principle is known to a more recent generation of strategists as Murphy's Law: "What can go wrong will go wrong.") One can always question such reassurances from "worst-case" perspectives, but the phenomenon they describe has rarely failed to manifest itself.

Similarly, it would be advantageous to keep in mind Kennan's admonition

[28] Kennan, *Memoirs: 1925–1950*, p. 130.

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that there should be some correspondence, in strategy, between the effect desired and that likely to be produced. "The world situation is not something which exists independently of our defense policy and to which we need only react," Kennan wrote in 1948. "It will be deeply influenced by the measures which we ourselves take. . . . Our policies must therefore be viewed not only as a means of reacting to a given situation, but as a means of influencing a situation as well."[29] It is all too easy, in concentrating on an assessment of adversary capabilities and intentions, to forget the extent to which they are apt to be the product of one's own.

Finally, there is in Kennan's approach a set of propositions so obvious that they often escape notice: that there are limits to power; that there are no commitments without costs; that there are risks in becoming so preoccupied with processes as to lose sight of objectives; that as strategy needs to be informed by policy, so policy needs to be informed by a clear vision of the national interest, framed with a keen sensitivity to both ideals and capabilities. Our position in the world, Kennan has repeatedly argued, depends largely on what we ourselves make it:

> If we wish our relations with Russia to be normal and serene, the best thing we can do is to see that on our side, at least, they are given the outward aspect of normalcy and serenity. Form means a great deal in international life. . . . What is important, in other words, is not so much *what* is done as *how* it is done. And in this sense, good form in outward demeanor becomes more than a means to an end, more than a subsidiary attribute: it becomes a value in itself, with its own validity and its own effectiveness, and perhaps—human nature being what it is—the greatest value of all.[30]

In an age when security is acknowledged to be a relative and not an absolute concept, hinging not so much on what configuration of power actually exists as on how it is perceived, it is well to be reminded that we have the ability to shape those perceptions to a considerable extent through the manner in which we bear ourselves. Self-confidence, by this logic, becomes more than just good psychology; it is nothing less than a key determinant of power in the world today.

VI

Michael Howard has written of Clausewitz that he "had less cause to fear his critics than to be wary of many of his professed admirers."[31] The same might be said of Kennan as well, for like the Prussian strategist's great work *On War,* the "X" article was put to uses its author could hardly have foreseen. It was no accident that Kennan came to harbor a certain lack of confidence "in the ability of men to define hypothetically in any useful way . . . future situations which no one could really imagine or envisage."[32]

And yet, there is in Kennan's writings a degree of foresight and a consistency of strategic vision for which it would be difficult to find a contemporary parallel. Kennan is not often regarded as a strategist, but if "strategy" is thought of as the rational relationship of national objectives to national capabilities, then he has as

[29] Kennan to Marshall and Robert Lovett, August 5, 1948, *Foreign Relations: 1948,* I, p. 599.
[30] Kennan, University of Virginia lecture, February 20, 1947, Kennan Papers, Box 16.
[31] Michael Howard, "The Influence of Clausewitz," in Carl von Clausewitz, *On War,* ed. and trans. by Michael Howard and Peter Paret, Princeton: Princeton University Press, 1976, p. 28.
[32] Kennan, *Memoirs: 1925–1950,* p. 408.

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good a claim as anyone to having devised a coherent American strategy for dealing with the postwar world.

The concerns which produced that strategy probably will not dominate events of the next decade to the extent that they have the past three. Dilemmas of economics, ecology, race and technology all are likely to overshadow in importance traditional sources of Soviet-American antagonism; these issues tend to cut across old cold war fault lines. The test of lasting relevance, however, is the extent to which principles developed in one context can be fruitfully applied in others. If the continued pertinence of the ideas Kennan worked out during the early years of the cold war is any guide, his strategic concepts, like those of Clausewitz, may find application in circumstances far removed from those which gave rise to them. One can only hope that the full range of Kennan's writings will be taken as text, though, and not just the misleading, but eminently persuasive, "X" article.

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COMMENT AND CORRESPONDENCE

IMPOSING A MIDDLE EAST PEACE

To the Editor:

I never fail to be enlightened when I read what George Ball writes on foreign affairs. He did not disappoint me with his article, "How to Save Israel in Spite of Herself," in the April issue of *Foreign Affairs*—even though I differ with him in a material respect. My own views are substantially reflected in the report of a group study entitled "Toward Peace in the Middle East" published by the Brookings Institution in December 1975.

Specifically, that report concluded as follows concerning the U. S. role:

> ". . . The governments directly concerned bear the responsibility of negotiation and agreement alone. Initiative, impetus, and inducement may well have to come from outside. The United States, because it enjoys a measure of confidence of parties on both sides and has the means to assist them economically and militarily, remains the great power best fitted to work actively with them in bringing about a settlement. Over and above helping to provide a framework for negotiation and submitting concrete proposals from time to time, the United States must be prepared to take other constructive steps, such as offering aid and providing guarantees where desired and needed. In all of this, the United States should work with the U.S.S.R. to the degree that Soviet willingness to play a constructive role will permit."

If I alone had written the foregoing, I would have been even more precise that a settlement in the Middle East must depend upon the willingness of the parties directly involved to begin the process and to make a determined effort to reach an agreement. It is apparent that some help will be needed from the United States, the Soviet Union and others as snags inevitably develop in the negotiating process. But, I believe that a peace imposed from the outset and from outside would be fatal to the hope for a lasting peace.

Certainly piecemeal steps seem to have outlived their usefulness. But, this should not cause us to underestimate the significance of the two agreements that were forged after the Yom Kippur War. Even though the pieces involved were relatively small, the withdrawal and the Sinai agreements set in motion a process of negotiation with the United States as the middleman and the nudger. This is more than had been achieved for many, many years. In my view, the Sinai agreement was unjustified for either Egypt or Israel if they did not conceive of it as only a step toward a more comprehensive settlement.

Very often, there are substantial gaps between Western approaches to problems and the typical Arab-Israel or Middle Eastern approach. One has to live in both civilizations to appreciate that difference. A failure to understand the character of commitment, the long and proud history, and the uniqueness as they perceive themselves of both Arabs and Israelis can propel us to commit fatal errors. From my work in various parts of the world as a representative of the United States, I can only see the error repeated in the approach which Mr. Ball suggests—that error is trying to solve African, Latin American, Asian and Middle East problems through the eyes of Western history, experience and attitudes. This dichotomy tends to force us to piecemeal answers only and sometimes answers which are best avoided. Mr. Ball's reference to U. S. action in

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1956–57 merely proves my point. In fact, it provided a long building up period for the troubles that preceded the Six Day War and the war itself.

Furthermore, attempting to impose a settlement *ab initio* runs counter to most postwar experience in which powerful nations dealt with small and smaller states. Mr. Ball was present at the emergence of the Group of 77, a unity that has transcended its economic base and created a political combine whose members find common cause in defending themselves against the real or fancied impositions of the industrialized world even when it may do harm to some of their economic interests.

Nor must we overlook the depth of the fears and mistrust that have grown out of years of clashes and five wars. To shed some of these fears, the confronting states need to go through the painful and slow process of getting as many mutually acceptable answers as possible.

In short, I agree that piecemeal settlements are dated. I agree that a conference should be appropriately convened as soon as sufficient groundwork has been laid. I agree that the United States, desirably the Soviet Union and even possibly others should prod and encourage solutions. But, the aim must be to achieve a settlement that carries the brand insofar as possible of agreements brought about through negotiations between the parties directly involved. A settlement that will be perceived as imposed by the United States, the Soviet Union and others will be illusory and doomed.

I have profound respect for the experience and judgment of some who believe that only an imposed settlement is possible; but, if that be the case, I would prefer piecemeal bits and pieces of adjustment perfected by the states directly involved. As little as I like this latter approach and with full recognition of the frequent perils that could intervene, it is preferable in the long run to an "imposed solution."

PHILIP M. KLUTZNICK
Chicago, Illinois

Mr. Ball replies:

I have such high regard for Philip Klutznick as a man of integrity and perception that I am extremely reluctant to disagree with him.

It would obviously be preferable for the Arabs and Israelis to negotiate a final settlement between themselves. But I cannot believe that such a procedure would succeed. In my article I pointed out that the requisite conditions to an effective negotiation in the classical mode simply do not exist between the Arabs and the Israelis and, if that was true before the May elections, the victory of the Likud Party has powerfully reenforced my dubiety. Can anyone seriously believe that a government headed by a leader who categorically asserts that he will never yield an inch of West Bank territory will be persuaded to make the requisite concessions if the United States merely plays a sideline role, "helping to provide a framework for negotiating and submitting concrete proposals from time to time?"

In some international disputes there is wide latitude for negotiation since a settlement is often possible with any of several combinations of mutually balancing concessions. But in the Arab-Israeli dispute each side has explicitly formulated its minimal requirements and passionately asserts that it will not settle unless those requirements are met. Thus the Israelis insist— and with good rea-

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son— on a real peace and will not be content with some vague declaration of non-belligerency. The frontline Arab states, on their part, are never going to agree to a full peace unless Israel commits herself to withdraw from substantially all territories she seized in 1967 and accepts the creation of a Palestinian homeland. Unlike many other situations, there is little room for bargaining within the context of a comprehensive settlement and, as Mr. Klutznick himself points out, "...piecemeal steps seem to have outlived their usefulness."

No amount of pushing and prodding is likely to force either side to grant the minimal requirement demanded by the other. That can occur, it seems to me, only if the United States says in effect: "These are the terms of a settlement based on the principles propounded by the U.N. Security Council which should satisfy each side's minimal requirements. They include powerful enforcement and security measures such as buffer zones with neutral forces, demilitarized areas, and superpower guarantees."

If the Arabs reject the U.S. proposals and refuse a full peace even on the promise of an Israeli withdrawal, we should recognize that another war is inevitable. But if the Arab states do agree to a full peace—as I believe they are likely to do—and the Israelis refuse to accept withdrawal essentially to pre-1967 boundaries, then the United States must face a hard national decision: Can we in good conscience continue to provide huge subsidies to enable Israeli obduracy to perpetuate a stalemate that will sooner or later lead to catastrophe for all? Do we really want our Middle East policies to be made in Jerusalem, or should we try to stave off disaster by taking a positive position of our own?

PUERTO RICAN INDEPENDENCE

To the Editor:

Concerning Rubén Berríos' well-written and well-argued article in the April issue of *Foreign Affairs*, "Independence for Puerto Rico: The Only Solution," I wish to point out that:

a. It is a solution that the people of Puerto Rico have repeatedly rejected. Aside from that basic fact, in 1977 and for any time into the future, independence is and will continue to be an impossible, anachronistic non-answer to Puerto Rico's pressing problems. They call for other than eighteenth- or nineteenth-century solutions.

b. The freedom, autonomy, social solidarity and security provided by the status of commonwealth or to use the Spanish form *estado libre asociado,* which we prefer as more precise, exceed by far any specific advantages that may be attached to the trappings of independence or statehood.

Estado libre asociado is a unique, creative, as yet imperfect contribution toward the growing world need for a fair and valid framework of relationships between weak and strong communities. This is especially necessary when such communities are neighbors, are interrelated, and have important, frequent and constant goals and interests in common.

On balance it is contrary to reality and unfair to the United States to claim that the United States has exploited Puerto Rico or that it has done so since common-

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wealth status was established in 1952. The tide of Puerto Rico's liberal thinking was turned against our own emotional preference for independence of the thirties and early forties after our heartbreaking realization that independence means less freedom, less democracy, less opportunities for the men, women and children of overpopulated Puerto Rico than any other alternative.

Now for the record. Puerto Rico has a higher life expectancy (71 years), a lower illiteracy rate (ten percent), a higher per capita income ($2,126), a fairer distribution of wealth than any Latin American or Third World nation. It has few natural resources under exploitation and 915 persons per square mile.

President Berríos of the Independentista Party, like the scholastic of old, thrives on definitions and ignores or readjusts facts to suit his definitions. He equates self-determination with independence so that neither elections, referenda nor plebiscites faze him. Thus for the last 20 years and for the six general elections of 1956, 1960, 1964, 1968, 1972, and 1976, the Independentista Party and all other separatist groups added together have fluctuated from eight percent to three percent to 6.5 percent of the total votes cast. Until 1976 the more radical *independentistas* boycotted elections and claimed as their own the non-voting part of the electorate. Whether persuaded by their own propaganda or attracted by the multiplicity of financial and publicity advantages accruing to electoral participation, Puerto Rico's Socialist Party—identified with Fidel Castro and the Third World group of nations—decided to offer its own slate last November. The sum total of votes cast for them and for Independentista Party President Rubén Berríos added to 6.5 percent of the total.

Partisans of independence and of statehood, now lobbying jointly in the United Nations, claim that Puerto Rico is a colony and will remain so unless it opts for one or the other of their alternatives. This presupposes a mastery of formulae over life which the people of Puerto Rico and the United States have been wise enough to reject.

JAIME BENITEZ
San Juan, Puerto Rico

Mr. Benitez is a former Resident Commissioner of Puerto Rico.

ENERGY REVISITED

To the Editor:

Amory Lovins describes his energy Shangri-la in the October 1976 *Foreign Affairs*. But, as with the original Shangri-la, the author never gives the directions necessary to reach his better world. The difficulty in solving our energy problem is not in developing the broad idea that we would all like to live better with less. The difficulty is in finding solutions which can be implemented so as to achieve the objective. Here, Mr. Lovins leaves us in the dark. He does not propose a course of action; he proposes a course of lack of action. He argues that we should stop doing what we know how to do in order to do something better that we don't yet know how to do. He gives no specific data for implementation of any of the soft technologies proposed, only the assertion that they will be better. Admiral Rickover once described the difference between real nuclear reactors and paper reactors. Paper reactors are simple, cheap, and use off-the-shelf technology. Real reactors, on the other hand, are complex, over budget, behind schedule, and are slogging through unforeseen engineering obstacles. Similarly,

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soft technologies are attractive, cheap and clean; while hard technologies are hard.

It is difficult to analyze Mr. Lovins' article in detail because of its own lack of detail, but let me discuss a few of his points. Mr. Lovins points out that the capital costs of power generating plants are high. He states that the 1976 to 1985 energy program proposed by President Ford will cost over a trillion dollars, of which 70 to 80 percent would be for new replacement power plants. He then makes a reference to a study by the American Institute of Architects which concludes that by 1990 improved design of new buildings and modification of old ones could save a third of our present total energy use. But he forgets to mention that the architects estimate that the added costs of these better buildings would amount to as much as 1.4 trillion dollars. It may be worth it. The architects do an economic analysis and argue that overall it will save money as well as fuel. But, without further detailed information, field tests and actual construction, should we not be suspicious that (as with the Alaskan pipeline, nuclear plants and the metro subway system in Washington) the cost estimates may be optimistic? It might also be noted that the architects' analyses indicate that even with the 12 million barrels of oil per day equivalent which their trillion dollar investment will save, the nation will by 1990 still require 50 percent more energy than we are using today and that oil importation will rise.

Consider the $40-a-kilowatt diesel proposed by Mr. Lovins. His cost is derived from the cost of an automobile. But automobile engines, when well maintained, operate for a hundred or a couple of hundred thousand miles. At 50 miles an hour, this is less than a year of continuous operation. Central station power plants are designed for lifetimes of 30 or more years and some have operated for much longer than this. How do the overall costs compare when one takes into account, not the initial capital costs that Mr. Lovins used, but the costs including costs of replacement and repair? Or if one builds the diesel to last ten years, what would its cost be then? Is the 35 percent efficiency projected by Mr. Lovins in fact realistic? The efficiency of internal combustion engines changes greatly with the load. What would its actual efficiency be when one averages its minimum load at night with its few hours maximum load during the day? And, what is the cost of the pedestal to support the machine, the anti-smog devices and stacks to accommodate the exhaust—and what about the noise?

Of course the hooker in the whole discussion is the fuel. If we took Mr. Lovins' suggestion seriously and converted all of our central station electrical plants to home diesels and generated all of our present electrical usage from these diesels with 35 percent efficiency, we would have to import over 9 million barrels/day to fuel them. (Unfortunately, during the *last* reform movement we converted our electrical generating plants from coal to oil and now import 2 million barrels of oil/day to fuel them.) So, plainly this can't be a serious proposal by Mr. Lovins and is meant only to make the point that small is good and there are ways to make small things economic.

But is small always good? We have after all a perfect example of Mr. Lovins' approach. We have our mass-produced individual transportation systems. They're known as automobiles. But every environmentalist worth his salt knows that these are evil. What we really should have is that big, impersonal, inconvenient but efficient mass transit system. Big is now soft and small is hard; or is it that soft is hard? I get a little confused. However, I have found a way to keep things straight: there is one common definition that we can hang our hat on in Mr. Lovins' article and that is: if it's in use now and we know how to do it it's

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hard, and if we don't yet know how to do it it's soft.

Biomass conversion is soft and good, and perhaps this can fuel our diesel. Melvin Calvin has estimated that we can obtain gross yields of alcohol of 140 million Btu/acre-year using sugarcane (sugar plus stalks). Under intensive cultivation our corn fields produce 32 million Btu/acre of food, but 16 million Btu/acre of energy is used to get this yield. Sugarcane doesn't grow very well in much of the United States, and sugar beets, whose productivity is a third that of sugarcane, may have to be grown in colder climates. What will be the average net yield in practice? Could it be as much as 80 million Btu/acre-year? If so, each barrel of oil per day equivalent requires 26 acres or an investment of $13,000 in land alone. According to Mr. Lovins this is in the range of investments for North Sea and Arctic oil (including their transportation systems). To produce the amount of liquid fuel now consumed by our transportation systems alone (9 million barrels oil/day) would require 240 million acres of cropland. We currently use about 400 million acres for food. Investment would be over $1 trillion. Where do we get the additional agricultural land? What are the environmental impacts of this additional farming? A major problem of expansion of our coal supplies is transportation. Wood has about half the density of coal and half the heat per unit weight. Other biomass fuels would be less dense. It takes a 100-car freight train each day to fuel a 1,000-MW coal-fired plant and a 40-car freight train each day to take away the ashes. Will it take four 100-car freight trains each day to bring the biomass fuel to a fluidized bed gasifier?

And, what about those fluidized bed combustion chambers in Lovins' scenario? Congress should investigate why ERDA (Energy Research and Development Administration) is spending so much development money in this area when the technology is already at hand.

Windmills are soft, but the problems are the same. We can get energy from windmills but it is questionable whether we can get enough energy to significantly impact on our energy problems at acceptable costs, reliability and environmental effects. Mr. Lovins gives us no details, but Goldsmith and his colleagues at the Energy Research Group, using data from Heronemus, project that a single thousand-megawatt power plant, using windmills, would occupy an area of 1,800 square miles with a windmill on each square mile sector. Each windmill would consist of a structure 75 stories high supporting 20 wind turbines each with 50-foot diameter rotor blades. Many people complain about the visual pollution of a standard electrical transmission line, but I presume that with some re-education we can all learn to admire the esthetics of the wind towers when they are located in our neighborhoods.

There is no doubt, as Mr. Lovins argues, that increasing the efficiency of energy usage could have large payoffs. The National Academy of Engineering estimated in 1974 that by diligent efforts we could improve the efficiency of energy utilization by as much as 20 percent by 1985. Mr. Lovins' interpretation of the American Physical Society study that we could improve efficiency of energy utilization by "a factor of at least 3 or 4" is a caricature of the results of the APS study and has been disclaimed personally to me by one member who wrote the report. However, Mr. Lovins' statement serves as an example of the problem with his thesis. The APS study was, in fact, an examination of the areas where research in physics might pay dividends in reducing our energy needs. A number of areas were identified and theoretical analyses were presented which indicated where large savings could be made. To take this report and argue that it "suggests" that we could improve energy efficiency by a factor of 3 or 4 is like

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suggesting that we will in the future travel between New York and Los Angeles in less than a second because the laws of physics say that we can approach the velocity of light as a theoretical limit. Similarly, to argue that we can *painlessly* reduce our energy requirements to the per capita levels of Sweden, West Germany, or Switzerland is deceptive and in my view incorrect. It is not plain, for example, that the market for secret bank accounts or watches would permit us to follow the Swiss pattern with our much larger labor force.

Mr. Lovins and I do have some areas of agreement. Both of us see the need for a major conservation effort and both of us expect an increase in energy need and use during the rest of this century, even with drastic conservation. However, one gains the impression from Mr. Lovins that the conservation program is going to be socially enriching; whereas I fear that an effective conservation program will not only impact on our life styles and standard of living, but also on our basic democratic institutions. Again, the trouble arises not from the broad generality that it would be nice to cut back on energy, or that it is necessary, but from the specific implementation of plans which will make people live differently than they have in the past and affect their livelihoods and aspirations in different ways.

Mr. Lovins and I agree that large solar electrical generating plants have problems, Mr. Lovins because of philosophical reasons and I because of technical considerations. We also agree that solar heating holds promise. I have in the past discussed solar heating with General Electric people working on it and with Mr. Sheldon Butt, the head of the Solar Energy Industries Association, the association of organizations trying to make solar heating a commercial enterprise. My GE colleagues indicate that economical solar heating is probably 5-10 years off, while Mr. Butt believes that it is very close, if not already in hand if the tax treatment of solar heating were properly handled. Butt indicates that solar heating is probably impractical as a retrofit on old buildings but is practical for new buildings specifically designed for solar heating. He projects that near the end of the century we may have a few percent to as much as eight or nine percent of our energy supplied by solar heating and is disturbed by people who won't recognize that this is a major contribution. But, of course, it will by itself not solve or change the character of our energy problem, and Butt vigorously supports the development of all available energy sources.

And, let me point out that contrary to what is implied by Mr. Lovins, the capital cost is again very large. Solar power isn't free and the reason there is a Solar Energy Industries Association is that members of the free enterprise system would like to participate in a very large potential market. The widespread use of solar heating to supply eight percent of our needs at the end of the century will involve investments of hundreds of billions of dollars. Unfortunately, the sun doesn't shine all the time and even with large heat storage systems which will increase the capital cost, one has to account for the rare occurrences where there are a week or two weeks of cloudy days, or when extended snows cover the solar collectors just when the weather is at its worst. Thus, in addition to the capital cost of the solar units, which will indeed save fuel, we require the capital cost of the backup systems for those dismal periods last winter which we Californians learned about from the TV news.

The soft scenario game is easy to play: my own soft technology is the electric car. Every physicist knows that energy of motion can be converted back into stored energy. A large amount of energy is lost in braking a car and bringing it to rest. But an electric car can run its motor backwards as a generator and save

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the energy of braking by recharging the battery.

Consider the electric car with a breeder reactor power plant supplying energy. Breeder reactors are already operating in France, Great Britain, and Russia, and the French are ready to export them at any time. The breeder reactor can attain thermal efficiencies of over 40 percent and the electric auto can attain 90 percent efficiency. Therefore, a breeder reactor supplying electricity to charge auto batteries used to drive electric cars should have an overall efficiency of 35 percent or more (the same target Lovins used for his diesel engine). Furthermore, since we recover the energy of slowing down a car, the overall efficiency for driving is much better than that of the diesel auto. Indeed, if a good engineer could work on the problem of friction, the laws of physics indicate that we could approach the point where transportation could take place with negligible net energy requirements. Since the battery could be charged at night this would help to even out electrical loads, reducing the overall capital cost of energy capacity; and, since breeder reactors don't pollute the air, we will at the same time help clean up the environment. It seems that we may be at a crossroad and the Congress should consider legislation outlawing the internal combustion engine. Plainly, continued effort in this direction takes away from the early deployment of the electric car.

I hope that no one will be so coarse as to ask me what kind of a battery I intend to use. There is considerable research on this matter and great progress is being made at General Electric, the National Labs and elsewhere. Besides, I consider this a soft technology. If it is soft, can battery development be hard?

The reader should understand that the electric car concept (when approached more seriously) actually holds great promise as do many of the concepts advocated by Mr. Lovins. But, there is a long road to travel between the always attractive conceptual idea and its practical implementation. We are already traveling down this road, trying to develop the concepts that Mr. Lovins proposes, but according to Mr. Lovins this is not satisfactory. He asserts we cannot afford to wait to find out if the development will be successful, for unless we abandon the old ways first we won't diligently pursue the new ways. Boiled down it seems to me that this is the key message of Mr. Lovins' article. The defect of the approach is clear.

Although he labels it soft technology, it is not a technology, but a philosophy with significant ramifications which Mr. Lovins espouses. I have in the past been disturbed and baffled by those who seem to oppose *every* effort which might alleviate the energy problem—be it the development of Alaskan oil, western coal, hydroelectric dams, offshore oil, geothermal power, nuclear power, shale oil, or synthetic fuels. Mr. Lovins has performed a major service by explaining an underlying rationale for this opposition in his articulate and readable article. I now feel better educated although I'm not sure I feel better.

There is an oft repeated complaint that in its early days nuclear power was oversold by predictions of electricity so cheap that meters would not be needed. I have heard this statement so often that I accept it as true although I have been unable to find it in the technical literature. However, let's accept the argument that nuclear power, or at least its ease of development, was oversold—and ask whether there is a lesson to be learned from it.

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Mr. Lovins replies:

I share Mr. Wolfe's concern with problems that will, as my article stated, "pose a supreme challenge to the adaptability of democratic institutions and to the vitality of our spiritual life." I therefore outlined an approach – Mr. Wolfe calls it "philosophy" – that can make those troublesome choices easier, less disruptive, and more equitable. I am sorry Mr. Wolfe found the outline unspecific. Within the constraints of space, audience, and intention (stated in footnote 1), the text and citations were densely packed with practical proposals. These were naturally framed at a level appropriate to policy discussion rather than to the detailed engineering design that must come later. But I proposed vigorous action on a broad front, not a "course of lack of action" as Mr. Wolfe claims. I merely do not share his apparent belief that efforts "which might alleviate the energy problem" consist only of ways of "developing" (using up) scarce resources faster.

Perhaps Mr. Wolfe correctly describes the state of knowledge at General Electric when he says that hard technologies are what we know how to do, soft technologies what we don't yet know how to do. But this is not true of the many cited technologists who have been at pains to devise and demonstrate conservation methods and soft and transitional technologies. Mr. Wolfe is unfortunately not familiar with what they have done (much of which I cite). Were it not for this unfamiliarity, one might suspect that he has got his own version of the soft/hard distinction exactly backwards: after all, the $64-million hard-technology writeoff at Morris, Illinois for which he is responsible, has amply demonstrated that there are some hard technologies that *nobody* knows how to do.

I shall first correct seriatim Mr. Wolfe's mistaken impressions about energy conservation, diesels, biomass conversion, fluidized beds, wind machines, solar collectors, and electric cars; then I shall return to broader questions about the nature of, and need for, soft technologies.

The American Institute of Architects does compute for a "nation of energy-efficient buildings" a marginal capital cost of $0.73–1.46 trillion, which Mr. Wolfe compares with my estimate from Bechtel data of over $1 trillion for increasing U.S. energy supply. But the former range of figures is for 1973–87 and is in current dollars (assuming inflation at 5.6 percent per year for residential and 7.8 percent for other buildings), while the latter figure is for 1976–85 (five years fewer) and is in constant 1976 dollars. These differences inflate the former figure roughly threefold relative to the latter. In fact, the AIA program saves fuel, its cost (several trillion discounted constant dollars through 1990 at constant 1977 fuel prices), and capital. In cash flow terms it does even better. Conservation repays investment two to four times as fast as supply, even at the pre-embargo prices assumed by the AIA, so the capital invested in conservation can be used at least twice over in a self-supporting revolving fund. The AIA computes that such a fund would need only $86–568 billion (current dollars) in working capital – vastly less than for equivalent supply. Nor are the AIA cost data speculative as Mr. Wolfe implies. Unlike analogous projections for the truly speculative hard technologies, they rest on much empirical knowledge and understanding. Finally, the AIA projection of increasing U.S. energy needs is borrowed from others as a basis for discussion – e.g., for showing that the AIA program could provide more energy more cheaply than nuclear power could – and is not an independent AIA conclusion.

Mr. Wolfe likewise claims that I "expect" increased U.S. energy needs "during the rest of this century, even with drastic conservation." I do not. Figure 2 in my article is a hypothetical illustration, not a forecast. My forecast would be that

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the United States will be hard pressed to produce as much primary energy in 2000 as it uses now (75 quads), and is unlikely *ever* to use—or need—more than about 85–90 quads. In retrospect, the top curve in Figure 2 now seems unrealistically high. It corresponds to end-use energy in 2000 far above Oak Ridge physicist Alvin Weinberg's preferred estimates, which assume much *less* conservation than I do. It shows primary energy in 2000 equal to the 95-quad "moderate conservation" scenario of Professors von Hippel and Williams (given in their March 1977 GESMO testimony to the Nuclear Regulatory Commission); even their no-new-initiatives "status quo" projection is only 112 quads. And the primary energy that Figure 2 shows for 2010—86 quads—is far above the eminently reasonable 70-quad scenario of the National Research Council's 1977 CONAES (Committee on Nuclear and Alternative Energy Systems) study, let alone the 40-quad scenario advanced by the CONAES "Lifestyles Panel." The trend of recent authoritative projections for the United States, as for other countries, is steeply downwards as we realize more clearly the extent of our waste. Does Mr. Wolfe disagree? Can he show in quantitative detail why he disagrees?

The American Physical Society study cited in note 11 of my article shows that the U.S. economy takes on average about 20 times as much energy to do its tasks as the minimum energy theoretically required to do those tasks infinitely slowly under ideal conditions. That is, the average Second Law efficiency of the U.S. economy is about $1/20 = 0.05$, whereas Professors Ross and Williams—the former a director of the APS study—have stated that "study of a variety of devices and processes suggests that a goal of [about 0.25 to 0.5]. . .is reasonable for ultimate practical systems." This view, readily supportable by the sorts of case-by-case analyses that I cite, is consistent with my interpretation that U.S. efficiency can be improved by at least a factor of three to four over the next 50 years or so. I doubt that any serious student of the subject will disagree: the closer people look at energy use, the more ways of increasing efficiency they discover. These ways are not painless, but they are far less painful than not adopting them. Those that I assume do not involve the curtailment that Mr. Wolfe fears: insulating one's roof does not mean freezing in the dark.

Moving now to diesel generators: my response to Hans Bethe in the April issue of *Foreign Affairs* makes clear—as Mr. Wolfe eventually realizes—that I mentioned diesels as an analogy, not a proposal. Nevertheless, modern diesel total-energy systems have for the past few years proved cheaper than central generation. According to vendors such as the Cummins Engine Company (Columbus, Indiana), a three- to six-engine (say, 350 to 3,000 kilowatt electric) installation, including at least one engine in reserve plus all buildings, antivibration mounts, heat recovery devices, and silencers, currently costs about $250 to $350 per installed kilowatt electric. Lifetime is typically 12 to 20 years, with 20–25,000 hours between major overhauls. Forced periods of unavailability can reportedly be measured in minutes per year or less. The thermal efficiency of the diesel generator alone surpasses that of most central power stations now operating (indeed, some experimental high-technology diesels in Europe have exceeded 45 percent efficiency), and the efficiency of diesel total-energy systems is about 75 percent. Gross costs are typically about 2.8¢/kW-h(e) for fuel, 0.7¢ for operation and maintenance, 0.5¢ for capital amortization, and minus 1.4-3¢ as credit for recovered waste heat, depending on whether it replaces a cheap fuel (residual oil) or an expensive one (liquid gas). Compared with utility generation, modern diesel total-energy systems can save 50 percent of the fuel and yield 35 percent or more annual after-tax return on investment. Thus if I *were* proposing

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such devices, it would not be an idle proposal.

My biomass estimates assume the use of agricultural and forestry residues that we already harvest, not intensive monocultural plantations that compete for land, water, and fertilizer with existing food crops. Displacing crops and using the methods of chemical agribusiness just to grow feedstocks for bioconversion would be unnecessary and silly. Trying to imitate today's elephantine power stations by building centralized bioconversion plants with input equivalent to 3,000 thermal megawatts, as Mr. Wolfe suggests, would be even sillier, since a local plant using local crop residues or woodlots and giving local jobs would work just as well. It would be the height of absurdity to burn the hard-won bioconverted liquid fuels in stationary electrical generators, as Mr. Wolfe further suggests, rather than in the vehicles that uniquely require them. I assume, too, that U.S. transport in 2025 can run not at today's U.S. efficiencies but at the best current European efficiencies, which are about three times as good.

Spurred by favorable studies at Oak Ridge, the House of Representatives Science and Technology Committee, and elsewhere, ERDA is starting to take fluidized beds more seriously. Two major ERDA design studies were commissioned in early 1977. But other technologists are not delaying their own commercialization. The Tennessee Valley Authority has announced plans to build a 200-megawatt fluidized bed with or without ERDA's help. After a joint study, Stal-Laval, Babcock & Wilcox (U.K.), and American Electric Power Company are to decide in mid-1977 whether to build a 64-megawatt (electric) fluidized-bed coal-fired gas turbine similar to that described in my article. The 25-megawatt fluidized-bed boiler of Enköpings Värmeverk in Sweden is to be commissioned in late 1977. Several companies and the President's Council on Environmental Quality have domestic-scale fluidized-bed projects. Part of ERDA's delay is simply explained: in September 1976 their international coal experts had never heard of Fluidfire or Stal-Laval. I fear that ERDA will continue to reinvent the wheel if it does not speed and simplify its procedures to European levels. So far it has been left behind—and hasn't even known it.

Mr. Wolfe's doubts about wind machines are not, so far as I know, shared by anyone familiar with the technology. Characteristically, ERDA/NASA's high-technology approach is incurring capital costs 7 to 70 times those demonstrated in similar or more advanced projects, mainly in Canada and Europe. My analysis assumes, here as elsewhere, the best technologies already working in the field, not the best used by ERDA. There is often a vast difference. Mr. Goldsmith's bizarre numbers have nothing to do with soft technology, but rather with irrationally using wind machines to imitate reactors. I would not propose a 75-story structure to support 20 small wind machines when a tower less than a tenth that height can support a single machine with the same 0.55-megawatt total average capacity. (Even that capacity per square mile is about seven times the average U.S. electrical load density and hints at overcentralization.) Yet, interestingly for those concerned about Goldsmith's 1,800 wind machines, a new thousand-megawatt power station in the United States requires approximately 1,800 towers to hold up its 140 miles of high-voltage transmission lines, and, with its distribution and fuel systems, would sterilize much more land, more lastingly, than would any equivalent population of wind machines in the most useful sizes (tens of kilowatts to a few megawatts).

As my cited Oak Ridge paper makes clear, and as Dr. Bethe now accepts after detailed correspondence following our April exchange, the solar space-heating systems that I assume include full seasonal heat storage and require no backup.

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If one combines the ERDA/MITRE November 1976 analysis (M76/79) of solar economics with the solar collector prices analyzed by the Office of Technology Assessment, it appears that solar heat now competes handily with electricity, oil, or gas practically anywhere in the United States. But that is a misleading type of comparison: it is a far more stringent test than, say, nuclear power could meet. We are now obliged to decide whether to invest in various long-term alternatives to oil and gas, including nuclear power, coal-gas plants, insulation, and solar collectors. To avoid misallocation of resources, we should be comparing all these alternatives *with each other*, not comparing some of them with the cheap but dwindling fuels that they are all meant to replace. On this basis, the completely solar systems I describe, retrofitted into most existing buildings, appear to have lower capital costs than their hard-technology competitors to heat the same buildings. (New buildings should use passive solar systems at zero or negative *marginal capital cost*.) As I *made clear*, *retrofitted solar heating is indeed* expensive; but it is cheaper, both initially and over its lifetime, than not having it. Likewise, solar process heat—some of which can use the techniques now being misdirected into large-scale solar-thermal electric plants—is often expensive, but is cheaper than the hard-technology alternatives to it.

Except perhaps for special uses and sites, I do not find electric-battery cars attractive, and feel they are receiving too much emphasis. Suitable advanced batteries, which do not exist and may never exist, will be costly and heavy, producing structural problems in a car crash; they use nasty materials such as molten lithium or sodium; and the electrical systems they entail are prohibitively capital-intensive. Thus it is not very important that their whole-system efficiency is similar to that of an ordinary car and its fuel cycle. They are of no interest save in a nuclear-electrified world.

Obviously I do not agree that breeder reactors—the archetypical hard technology—will "help clean up the environment," any more than I agree that cyanide is more healthful to eat than candy because it doesn't promote tooth decay. (Mr. Wolfe's claim that breeder reactors "are already operating" abroad is likewise written with an economy of truth: those small prototypes have doubling times of the order of 30–60 years, i.e., it takes this long for them to make available added fuel equal to their original fuel input. For all practical purposes they don't breed. The best quasi-breeder, the French Phénix, had cumulatively produced only 51 percent of its full-time, full-power rating through 1975, before its forced shutdown of many months, and the British and Russian machines have done even worse. All are astronomically costly.) I see no prospect whatever of a breeder economy in the United States or anywhere else. Happily, with efficient use of biomass fuel, I also see no need for significant numbers of battery-electric cars or of the baroque hard technologies that General Electric wishes to sell in order to run them. (This does not exclude, however, the possibility of using biomass fuels in portable fuel cells—at even higher efficiency than Mr. Wolfe's breeders—to run electric cars, which could store their braking energy in practicably small batteries.)

More broadly, Mr. Wolfe is wrong to portray ordinary cars as a soft technology. He has not read my definition of "soft technology" as carefully as I wrote it, and so confuses small scale or decentralization (which is what he thinks I said) with *scale matched to end-use needs* (which is what I actually said). Transport needs, like energy uses, have a spectrum of scale. We have dense traffic in and between cities, sparse traffic in the countryside. Trains, trams, subways, and buses—that is, mainly mass transit—are the right tool for the former job; mainly private

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transport (cars, minibuses, motorcycles, bicycles, walking) for the latter; a more even mixture in the suburbs in between. It does not make sense to have private cars swarming over the inner cities nor subways over the countryside, but rather to match the mode to the need. Likewise with energy systems, we should seek to run smelters with existing large hydroelectric dams and to heat houses with small solar systems, not the other way around. Now, it happens that both our transport and our energy systems are currently mismatched to end uses: we need to move toward more mass transit *and* toward smaller energy systems. But these needed shifts of average scale are the *consequence* of a sensible principle of matching, not the reverse. Thus it is internally consistent for conservationists, believing in appropriate tools, to seek simultaneously both smaller energy systems and more public transport, just as their opponents, believing in profitable waste and inappropriateness, seek simultaneously both larger energy systems and the universal primacy of the private car.

Finally, Mr. Wolfe rightly says that I think we should give up many present projects, especially those that now engage his firm, in order to be able to devote our full resources to implementing conservation methods and soft and transitional technologies whose feasibility is already proved. But while he is at a loss as to how to do these unfamiliarly simple things, others are not. As nuclear advocate Linn Draper remarked in our Senate debate on December 9, 1976, what is needed for soft technologies "is not additional research, but incentives" – I would prefer to say lack of disincentives – "to deploy techniques." If, as I suggested in the April issue, the big hard-technology programs are superfluous, and if, as Mr. Draper agreed, the soft technologies are not only known to work but are cheaper and better for jobs than the hard technologies, then I do not see what we are waiting for. If we are to wait for Mr. Wolfe to find out that there are many able soft technologists who know their business better than General Electric does, we shall wait for far too long.

General Electric and its kin can and will be recycled. Any company that keeps and adapts its skills can remain profitable in a changing world. But it is genuinely difficult for companies that have sought their challenges in complexity to see the challenges in simplicity. For those that can do so, soft energy paths offer not a threat but a remarkable opportunity.

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RECENT BOOKS ON INTERNATIONAL RELATIONS

Edited by Lucy Edwards Despard

General: Political and Legal

Edward L. Morse

THE INEQUALITY OF NATIONS. By Robert W. Tucker. New York: Basic Books, 1977, 214 pp. $10.95.

No issue of contemporary international relations has greater apparent importance than conflicts arising from the gap between rich and poor societies in our interdependent world. Professor Tucker's lucid, forceful, unorthodox and important argument should continue the debates engendered by his earlier essays on this subject. To try to induce greater equality into international relations, the author insists, will be quixotic and counterproductive. Few would dispute Tucker's general thesis that a world of states will remain unequal. Many, however, will disagree with his major arguments about the distinctions between domestic and international affairs and the disutility of the rich trying to coopt or satisfy the poor.

WAR, FOREIGN AFFAIRS AND CONSTITUTIONAL POWER. Vol. I: THE ORIGINS. By Abraham D. Sofaer. Cambridge: Ballinger, 1976, 533 pp. $15.00.

American debates over war powers and the role of Congress in foreign affairs, inspired by the war in Vietnam, resulted in a mushrooming of constitutional studies. Professor Sofaer's book – the first of a trilogy sponsored by the American Bar Association – covers the first 40 years of the republic. More readable than most legal tracts, it concentrates on the war powers and places constitutional debates in a wider political and ideological context. Its main omission is an analysis of the "Commerce Clause" and the putative role of trade in America's foreign relationships.

FOREIGN POLICY MOTIVATION. By Richard W. Cottam. Pittsburgh: University of Pittsburgh Press, 1977, 374 pp. $12.50.

For about 20 years, some academicians have argued that they were on the verge of a theoretical breakthrough in systematically relating international conflicts to the perceptions of the adversaries. Using as primary examples the conflict in Vietnam and an extended historical case study of British imperialism in Egypt, Cottam tells some interesting stories. While it is clear that motivational differences give rise to conflicts, it remains unclear under what conditions or how to separate perceptual differences from real conflicts of value and interest.

POLITICS AND THE FUTURE OF INDUSTRIAL SOCIETY. Edited by Leon N. Lindberg. New York: McKay, 1976, 286 pp. $12.50 (Paper, $6.95).

Much analysis of current history is impeded by weak social theory and the way unanticipated events deflect "inevitable" trends. Advanced industrialized socie-

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ties—which are relatively novel social institutions—are particularly vulnerable to projective analyses. The eight essays in this volume provide different approaches to "postindustrialism" in an array of societies, but offer little in the way of cross-cultural comparisons and nothing in the way of theoretical advance.

UTOPIA AND REVOLUTION. By Melvin J. Lasky. Chicago: University of Chicago Press, 1976, 726 pp. $35.00.

As the title suggests, this is a study in politics, philosophy, sociology, literature and the history of ideas. In a book as monumental as its subject matter, Lasky tries—with imagination and insight—to impose a structure on material whose non-plasticity often defies intellectual order.

REVOLUTION IN THE THIRD WORLD. By Gerard Chaliand. New York: Viking, 1977, 256 pp. $10.95.

A former *Le Monde* correspondent, sympathetic to the Third World in armed conflicts he has observed at first hand, reflects upon successes—Vietnam, China—and failures of revolutions in developing countries. Chaliand escapes straitjacket Marxist analysis and offers insights for theory and practice not found in truly ideological tracts.

REACHING JUDGMENT AT NUREMBERG. By Bradley F. Smith. New York: Basic Books, 1977, 349 pp. $15.00.

The Vietnam war re-ignited interest in individual rights under international law and morality. Smith's study of the Nuremberg proceedings reminds us that these rights are determined, adjudicated, and implemented by real people, whose judgments are affected by social and personal conditions. A superbly written and novelesque account, which is also a sound work of historical scholarship.

L'EUROPE DES JUGES. By Robert Lecourt. Brussels: Bruylant, 1976, 321 pp. B.Fr. 1.340.

A former President of the European Community's Court of Justice presents a judge's view on how the judicial process works in Europe's Common Market. Of special interest is Lecourt's analysis of methods of treaty interpretation and the process of growth in Communitarian law. The relationship between the Court's preferences and the wishes of member governments is less convincingly treated.

INTERNATIONAL AGENCIES: THE EMERGING FRAMEWORK OF INTERDEPENDENCE. By Evan Luard. London: Macmillan (for the Royal Institute of International Affairs), 1977, 338 pp. £14.

Modern technology, communications, and economic interdependence have given an increasing number of problems a global dimension. Analyzing two aspects of 15 major problems, from postal services to seabeds to health and development, Luard describes the international institutions that have been created to manage them and poses questions concerning the prospects of international governance.

UNITED STATES LEGISLATION ON FOREIGN RELATIONS AND INTERNATIONAL COMMERCE: A CHRONOLOGICAL AND SUBJECT INDEX OF PUBLIC LAWS AND JOINT RESOLUTIONS OF THE CONGRESS OF THE UNITED STATES. Edited by Igor I. Kavass and Michael J. Blake. Buffalo (N.Y.): Hein, 1977, 3 vols. $225.00.

A unique and invaluable source for research, this three-volume cumulative index lists and annotates all American laws and Joint Congressional Resolutions on foreign affairs and international trade between 1789 and 1949. Its chronological and subject indices and numerical listing of treaties provide short cuts for users of other public law documents in ways not previously available.

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General: Military, Technological, and Scientific

Andrew J. Pierre

INTERNATIONAL DISASTER RELIEF: TOWARD A RESPONSIVE SYSTEM. By Stephen Green. New York: McGraw-Hill (for the Council on Foreign Relations/1980s Project), 1977, 101 pp. $6.95 (Paper, $3.95).

The existing international system for responding to natural disasters is far from adequate. During the decade ending in 1975, disasters claimed 3.6 million lives and affected 439 million people. In this timely book, the author recognizes that disaster relief involves politics as well as logistics; from his first-hand experience with the 1974 Ethiopian famine, he knows that politics in the afflicted country can prevent even the acknowledgement of a disaster, not to mention effective relief. That experience may also have inspired one of the principal recommendations, a new Geneva Convention fashioned after that for the 1949 Rules of War that would affirm "the common responsibility of all people and governments to provide protection and relief to the victims of natural disasters."

Lester R. Brown

NUCLEAR PROLIFERATION: MOTIVATIONS, CAPABILITIES, AND STRATEGIES FOR CONTROL. By Ted Greenwood, Harold A. Feiveson and Theodore B. Taylor. New York: McGraw-Hill (for the Council on Foreign Relations/1980s Project), 1977, 210 pp. $8.95 (Paper, $4.95).

A solid package of two essays on the motives and the technical capabilities threatening further nuclear weapons spread. The first ("motives") half of the book, by Greenwood, makes several major points: that the situation is far from hopeless but that some important prices will have to be paid to halt proliferation, that no single once-and-for-all solutions will suffice, and that what is good for stopping proliferation may sometimes be bad for the rest of arms control (the "dove's dilemma"). The "capabilities" half, by Feiveson and Taylor, is a clearly written presentation of some important qualitative choices in nuclear technology, beyond simply "tolerating" or "holding back."

George H. Quester

NUCLEAR POWER ISSUES AND CHOICES: REPORT OF THE NUCLEAR ENERGY POLICY STUDY GROUP. Cambridge: Ballinger (for the Ford Foundation and the MITRE Corporation), 1977, 418 pp.

This impressive book, a model of clarity, depth and timeliness, appears to have had considerable impact on the nuclear policy of the Carter Administration. The 21-member group of experts examined the whole range of issues surrounding nuclear energy. Its recommendations are: (1) the international and social risks associated with the reprocessing and recycle of plutonium far outweigh the economic benefits and there is no compelling reason for the U.S. to depend upon plutonium in this century; (2) the breeder reactor program should be deemphasized and the date for commercialization postponed beyond the year 2000; (3) nuclear waste management should be expanded and improved, using stable geological formations; (4) U.S. uranium enrichment capacity should be enlarged so as to assure other countries adequate nuclear fuel supplies, thereby reducing pressures to seek indigenous facilities that would provide a capability leading to weapons; (5) the U.S. should, through its nuclear export policy, seek a consensus among supplier and consumer nations against the spread of national plutonium separation and uranium enrichment facilities. Although not alone in making such recommendations, this is likely to be seen as a landmark study.

VERY SPECIAL INTELLIGENCE: THE STORY OF THE ADMIRALTY'S INTELLIGENCE CENTRE 1939–45. By Patrick Beesly. London: Hamish Hamilton, 1977, 271 pp. £5.95 (to be published shortly in the U.S. by Doubleday).

A superb first-hand account of the role of intelligence in the Battle of the

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Atlantic, this is by far the best book yet on the role of cipher-breaking (ULTRA) in relation to specific operations during World War II. The author is candid and illuminating about the defects in Britain's own cipher security in the early years, and makes judicious use both of official British war histories and much material from German sources. Above all, unlike too many other such works, the ego does not intrude.

W.P.B.

THE CIA'S SECRET OPERATIONS. By Harry Rositzke. New York: Reader's Digest Press, 1977, 286 pp. $12.95.

This description of the CIA's activities, including its covert operations, has the ring of authenticity. The author, a sophisticated career officer with a quarter century of experience, upholds the necessity for various forms of espionage, and believes that excesses or abuses could be controlled through limited congressional oversight, an internal ombudsman and wise Presidential leadership. One of the more balanced works of recent years on the agency.

CIVIL-MILITARY RELATIONS. By Andrew J. Goodpaster and Samuel P. Huntington. Washington: American Enterprise Institute, 1977, 84 pp. $2.50 (Paper).

Admirers of Samuel P. Huntington's classic *The Soldier and the State* (1957) will find here a brief but cogent update which takes into account the transformations in civil-military relations brought about by Vietnam, détente and changes in attitudes toward the use of military force. Huntington foresees in the future less interaction between the military establishment and social institutions—a professional corps which is different from, but not distant from, the society it serves. Goodpaster's wise and sound contribution on educational aspects of civil-military relations is of special interest because of his recently announced return from retirement to be Superintendent of troubled West Point.

ILLUSIONS OF CHOICE: THE F-111 AND THE PROBLEM OF WEAPONS ACQUISITION REFORM. By Robert F. Coulam. Princeton: Princeton University Press, 1977, 432 pp. $21.50.

The F-111 as a common aircraft for the air force and navy was a centerpiece of McNamara's reform of the Pentagon's weapons-acquisition process. By most criteria, the "reform" failed. This first-rate and detailed study, which draws upon the conceptual works of Graham Allison and John Steinbruner, explores the reasons for the failure. It advances new, and somewhat pessimistic, theoretical concepts about weapons development which question the ability of political leadership to fundamentally change enduring institutional process. As the U.S. enters a new era, an implicit challenge to Harold Brown to do better.

THE MANAGEMENT OF DEFENCE. Edited by Laurence Martin. New York: St. Martin's, 1976, 137 pp. $15.95.

Six essays written for the U.K. National Defence College which illustrate how Britain's recent experience in defense management techniques has both followed and differed from what has developed in America. The essays are written by a mix of practitioners and academicians, but unfortunately they do not include one by the distinguished editor.

THE ESTIMATION OF SOVIET DEFENSE EXPENDITURES, 1955–75: AN UNCONVENTIONAL APPROACH. By William T. Lee. New York: Praeger, 1977, 358 pp.

One aspect of the continuing debate over the Soviet-American military balance has been the controversy over the accuracy of Western estimates of Soviet defense spending. The author of this detailed work argues that past CIA estimates have been implausibly low and have not correctly reflected observed changes in the Soviet military establishment. Although a book written for specialists, the implications of its argument are far-reaching.

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ARMS IN THE INDIAN OCEAN. By Dale R. Tahtinen. Washington: American Enterprise Institute, 1977, 84 pp. $3.00 (Paper).

After examining the strategic interests of the superpowers in the Indian Ocean, the role of other external actors, the perspectives of the littoral states and scenarios for possible conflict, Tahtinen comes down in favor of Soviet-American negotiations on an agreement limiting naval presences. A timely study, given the recent agreement to set up a U.S.-U.S.S.R. working group on this subject.

NAVIES AND FOREIGN POLICY. By Ken Booth. New York: Crane, Russak, 1977, 294 pp. $16.00.

As the title promises, this book by a British scholar at Aberystwyth goes well beyond capabilities and military doctrine. Navies as symbols of prestige, instruments of bargaining and manipulation, contributors to nation-building, means of reassurance for allies, and so on, are all subjected to analysis. A good way to begin responding to the recurring question: "Why do we need a navy?"

THE POLITICAL IMPLICATIONS OF SOVIET MILITARY POWER. Edited by Lawrence L. Whetten. New York: Crane, Russak, 1977, 182 pp. $14.50.

A companion volume to *The Future of Soviet Military Power* (noted in *Foreign Affairs*, April 1977), this is an unusually good selection of essays by European and American experts. The international political context of Soviet military power is emphasized even more than the title implies.

THE SINO-SOVIET CONFRONTATION: IMPLICATIONS FOR THE FUTURE. By Harold C. Hinton. New York: Crane, Russak (for the National Strategy Information Center), 1977, 72 pp. $4.95 (Paper, $2.95).

This short study does not break new ground but offers a perceptive appraisal of the prospects for reconciliation between Peking and Moscow. Hinton, an expert on the subject, sees little likelihood for a full-fledged rapprochement, although some amelioration of present tensions is possible.

L'INSPECTION INTERNATIONALE: QUINZE ÉTUDES DE LA PRATIQUE DES ÉTATS ET DES ORGANISATIONS INTERNATIONALES. By Georges Fischer and Daniel Vignes. Brussels: Bruylant, 1976, 524 pp. B.Fr. 2.650.

An ambitious and original work. The unifying theme is the concept of international inspection in juridical theory and in practice. It is applied, with varying degrees of success, to such disparate contexts as human rights, war prisoner camps, drug trafficking, the powers of the W.H.O., I.M.F., the World Bank, as well as the cessation of hostilities in Indochina, inspection of ships, U.N. peacekeeping forces and traditional arms control.

POLITICAL VIOLENCE: A PHILOSOPHICAL ANALYSIS OF TERRORISM. By Ted Honderich. Ithaca: Cornell University Press, 1977, 118 pp. $7.95.

A needed contribution—that of the philosopher—to the often sterile debate on terrorism and violence. Honderich refuses to characterize resort to violence in black and white terms, seeing an occasional moral justification for some acts of violence in the cause of democracy. A thought-provoking work, influenced by John Rawls' landmark *A Theory of Justice*.

General: Economic and Social

William Diebold, Jr.

ALTERNATIVES TO MONETARY DISORDER. By Fred Hirsch, Michael W. Doyle and Edward L. Morse. New York: McGraw-Hill (for the Council on Foreign Relations/1980s Project), 1977, 153 pp. $6.95 (Paper, $3.95).

These two essays examine the political conditions for the creation of a new monetary order for the 1980s. Hirsch and Doyle investigate the roots of the cur-

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rent politicization of international economic relations, and prescribe a three-tiered international monetary system managed by an inner core of rich industrial nations but responsive to the economic and political desires of the lesser tier. Edward Morse examines four alternative monetary regimes based on different configurations and, like Hirsch and Doyle, argues for a tiered system centered around five or six Western states. The emphasis on the political dimension makes this a useful contribution to the discussion of monetary reform.

Joan Spero

WHY POOR PEOPLE STAY POOR: URBAN BIAS IN WORLD DEVELOPMENT. By Michael Lipton. Cambridge: Harvard University Press, 1977, 480 pp. $15.00.

At a time when poverty and food are becoming the main preoccupation of development thinkers, this book is a major contribution to the discussion. Why poverty persists in spite of good growth rates is the issue. The diagnosis implied by the title is clearly and quite persuasively set forth in the introduction and first part, which should be read. The later analysis of evidence inevitably becomes more specialized and raises more controversial matters than can be judged in a short review. The bias, Lipton shows, is widespread; extrapolation from Western economic history, misleading.

RAW MATERIALS & FOREIGN POLICY. Washington: International Economic Studies Institute, 1976, 416 pp. $16.00.

Eschewing extremes in both diagnosis and prescription, the producers of this very substantial volume provide expert discussions of past and present difficulties, and show in some detail how serious problems can be kept from becoming alarming if they are not neglected now. National and international action, the specific problems of a number of materials, and the policy organization of the U.S. government are all dealt with.

THE POLITICAL ECONOMY OF EAST-WEST-SOUTH CO-OPERATION. By G. Adler-Karlsson. New York: Springer-Verlag, 1976, 208 pp. $21.20 (Paper).

What can developing countries learn from developed capitalist and socialist countries? From the former, something about efficiency, international cooperation and freedom; from the latter, more about how to provide employment, essentials and relative equality with limited resources, and maybe how to bargain effectively with multinationals. In arguing his case, the Swedish social democratic author has many provocative things to say about many subjects.

FOREIGN TRADE AND DOMESTIC AID. By Charles R. Frank, Jr. Washington: Brookings, 1977, 180 pp. $9.95.

The best book on U.S. adjustment assistance, a thus far unsatisfactory effort of considerable importance. Succinct history and analysis of law and practice connected with imports is supplemented with a valuable account of somewhat more successful efforts in other fields. Standing on its own merits is an excellent original study of the limited impact of imports on jobs in 1963–71.

THE INTERNATIONAL MONETARY FUND 1966–1971. Edited by Margaret Garritsen de Vries. Washington: International Monetary Fund, 1976, 2 vols. $15.00.

It is admirable that an international organization should provide a thorough, documented history of its activities while events are still fresh in memory and relevant to current affairs. Following the 20-year history published in 1969, the period of the new volumes starts with a major innovation, the creation of SDRs, and ends with the near-disruption of the international monetary system and the temporary holding operation of the Smithsonian Agreement. A long-time mem-

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ber of the Fund staff, Mrs. de Vries writes on her own responsibility and provides a valuable, discreet insider's analysis.

POLITICAL STRATEGIES FOR INDUSTRIAL ORDER: STATE, MARKET, AND INDUSTRY IN FRANCE. By John Zysman. Berkeley: University of California Press, 1977, 239 pp. $12.75.

The French government's efforts to develop a modern, national electronics industry that could stand on its own two feet do not count as successes for industrial policy. An ingenious and sometimes complicated analysis by a political scientist from Berkeley distributes the blame among organizational factors in government and business, international competition, and the peculiarities of changing technology.

DAS INTEGRIERTE ROHSTOFFPROGRAMM. By Dietrich Kebschull, Wilfried Kunne and Karl Wolfgang Menck. Hamburg: Weltarchiv, 1977, 401 pp. DM. 42.

Undertaken for the German government, this thorough study of the "integrated program for commodities" put forward in UNCTAD looks at costs, feasibility, effectiveness and internal consistency. The experienced scholars of the Hamburg Institute for Economic Research see only limited possibilities for producers' associations and buffer stocks, dislike indexing and long-term contracts, favor stablization of export earnings and are cautious about the possibilities of great increases in processing in producing countries.

THEORETICAL PROBLEMS, CURRENT STRUCTURAL CHANGES IN THE WORLD ECONOMY. Edited by Jozsef Nyilas. Leiden: Sijthoff, 1976, 336 pp. $28.50.

INTEGRATION IN THE WORLD ECONOMY: EAST-WEST AND INTERSTATE RELATIONS. Edited by Jozsef Nyilas. Leiden: Sijthoff, 1976, 276 pp. $23.00.

For Western readers, these studies by some leading Hungarian economists are of exceptional value in providing a lucid Marxist analysis of contemporary international economic relations. The world they deal with and the problems they see in it are a good deal more recognizable than those to be found in books by less rigorous radical writers in the U.S. and elsewhere.

CORPORATE IMPERIALISM: CONFLICT AND EXPROPRIATION. By Norman Girvan. White Plains (N.Y.): Sharpe, 1977, 241 pp. (White Plains: International Arts & Sciences Press, distributor, $17.50).

Nationalization of raw materials is not enough if it leaves producing countries tied into the international economy, says this Jamaican economist after reviewing the history of bauxite in the Caribbean and copper in Chile. Along with "dependent industrialization" it leads to the "cooptation of economic nationalism." Only a socialist reorientation of life in developing countries will free them from corporate imperialism, he concludes.

FOREIGN TRADE REGIMES AND ECONOMIC DEVELOPMENT. Vol. VIII: CHILE. By Jere R. Behrman. New York: National Bureau of Economic Research, 1976, 408 pp. (New York: Columbia University Press, distributor, $17.50).

FOREIGN TRADE REGIMES AND ECONOMIC DEVELOPMENT. Vol. IX: COLOMBIA. By Carlos F. Diaz-Alejandro. New York: National Bureau of Economic Research, 1976, 281 pp. (New York: Columbia University Press, distributor, $15.00).

The impact of policy on trade and payments and the problems of sustaining liberalization of foreign transactions provide the focus for these two excellent additions to a major series that is approaching completion.

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LA BALANCE DES PAIEMENTS DE L'EUROPE OCCIDENTALE AVEC L'EUROPE ORIENTALE DE 1960 À 1970. By Oleg Betcher. Geneva: Institut Universitaire de Hautes Etudes Internationales, 1976, 215 pp.

Detailed material and a valuable commentary. Strong on trade but with a good effort at dealing with invisibles and capital movements.

THE FUTURE OF THE WORLD ECONOMY: A UNITED NATIONS STUDY. By Wassily Leontief and others. New York: Oxford University Press, 1977, 110 pp. $12.95.

Some possible futures, not predictions, are given in some detail in these "preliminary results" of a major study. Not physical limits but the ability to make great changes in developed and developing countries will determine whether much progress is made toward closing the income gap by the year 2000.

THE UNITED STATES AND WORLD DEVELOPMENT: AGENDA 77. By John W. Sewell and the Staff of the Overseas Development Council. New York: Praeger, 1977, 248 pp. $4.95 (Paper).

Good annual value, this time featuring lots of recommendations for the new Administration.

THE FUTURE OF INTERNATIONAL ECONOMIC ORGANIZATIONS. Edited by Don Wallace, Jr. and Helen Escobar. New York: Praeger, 1977, 184 pp.

Comments at a 1975 colloquium of leading American experts which deal with much more than organizations.

UNEQUAL DEVELOPMENT: AN ESSAY ON THE SOCIAL FORMATIONS OF PERIPHERAL CAPITALISM. By Samir Amin. New York: Monthly Review Press, 1977, 440 pp. $17.50.

The periphery, not the center, is where the overthrow of an outmoded system begins. The birth of capitalism and its present crisis illustrate this thesis, according to the head of the African Institute for Economic Development (whose larger theoretical work, *Accumulation on a World Scale*, was noted in *Foreign Affairs*, July 1975).

SOCIALIST INTEGRATION. By M. Senin. Moscow: Progress, 1976, 284 pp. (Chicago: Imported Publications, distributor).
ECONOMIC INTEGRATION: TWO APPROACHES. By V. I Kuznetsov. Moscow: Progress, 1976, 174 pp. (Chicago: Imports Publications, distributor).
SEVI TRETII MIR: PROBLEMY SOTRUDNICHESTVA I RAZDELENIIA TRUDA. By Ivan Ganev. Moscow: Ekonomika, 1976, 215 pp.

Senin and Kuznetsov, two Soviet economists, deal, respectively, with the basic character of integration among socialist countries and with the comparison of COMECON with the European Community. Ganev, a Bulgarian, writes about COMECON relations with the Third World.

EASTERN AND WESTERN EUROPEAN ECONOMIC INTEGRATION. By Barry Bracewell-Milnes. New York: St. Martin's, 1976, 218 pp. $18.95.

The better half of the book is a concise, comprehensive discussion of economic integration without much reference to experience. The remaining chapters say something about the Community and COMECON but throw no light on their interaction. The author is economic adviser to the Institute of Directors in London.

FEAR IN THE COUNTRYSIDE: THE CONTROL OF AGRICULTURAL RESOURCES IN THE POOR COUNTRIES BY NONPEASANT ELITES. By E. G. Vallianatos. Cambridge: Ballinger, 1976, 180 pp. $14.00

Uneven and argumentative–the word "must" is a constant refrain–but with fascinating historical material on Western attitudes toward colonial agriculture,

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a critical sociology of American agricultural aiders, and a first-hand, hard-hitting account of how badly it all works in Colombia.

The United States

Gaddis Smith

THE CLOUD OF DANGER: CURRENT REALITIES OF AMERICAN FOREIGN POLICY. By George F. Kennan. Boston: Atlantic-Little Brown, 1977, 234 pp. $8.95.

A unique tour d'horizon, its author's habitual eloquence reinforced by deep feeling, this book will compel the attention and argument alike of those inclined to agree or dissent from its central theses. These are, first, that the United States is simply not equipped within the limitations of democratic methods to conduct an activist global foreign policy, and should narrow its focus to the central Soviet problems and to the support of NATO Europe, Japan, and (short of the use of military force) Israel; second, that in that area of focus we should judge Soviet behavior much less harshly than we often do, and avoid what he sees as the trend toward ever more militarization and hostility in the relationship. Many will feel that the author is too hard on America and too sanguine about Soviet policy, and that the results of his often flat-footed prescriptions—in the Middle East, in southern Africa, in Korea—would be very hard to take both in terms of American domestic politics and in terms of world strategy. But lay and professional readers alike will be forced to rethink their premises, surely one of the higher purposes of elder statesmen.

W.P.B.

SHATTERED PEACE: THE ORIGINS OF THE COLD WAR AND THE NATIONAL SECURITY STATE. By Daniel Yergin. Boston: Houghton Mifflin, 1977, 526 pp. $15.00.

This is the most significant study of the American side of the onset of the cold war since John Lewis Gaddis' *The United States and the Origins of the Cold War* was published in 1972. Yergin's thesis is clear and original. In 1945 a perception of Russia as a potentially cooperative great power ("the Yalta axioms") contended among American policymakers with the perception of an implacable Soviet ideology bent on world conquest ("the Riga axioms" as developed by Foreign Service officers in the 1920s and early 1930s and reintroduced after Roosevelt's death). By 1947 the Riga axioms were unchallenged. Yergin stresses the caution, confusion and defensive nature of Soviet policy. He emphasizes the primacy of military security over economics and domestic politics as the driving force behind American behavior. The book is unequalled in its exhaustive use of private papers, archives and interviews, and the footnotes contain several gems of historiographical criticism.

HARRY HOPKINS: A BIOGRAPHY. By Henry H. Adams. New York: Putnam, 1977, 448 pp. $15.00.

The author is the first since Robert Sherwood, whose masterful *Roosevelt and Hopkins* appeared in 1948, to complete a full biography of Harry Hopkins. He has added significant detail, based on new sources, while confirming Sherwood's portrait of a brave and loyal aide who ranked with George Marshall in his contribution to victory in World War II. The three most influential foreign policy advisers to Presidents in this century were Colonel House for Wilson, Hopkins, and Henry A. Kissinger. Hopkins was more loyal than House, less innovative than Kissinger, but equal to both in his ability to get things done. He died in 1946, exhausted and in debt.

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HISTORY OF THE USA SINCE WORLD WAR I. By N. Sivachyov and E. Yazkov. Moscow: Progress, 1977, 501 pp. (Chicago: Imported Publications, distributor, $5.75).

An interesting sample of official Soviet academic perceptions of the United States. The authors stress the simultaneous "intensification of reactionary trends and militarism" and the progress of countervailing "democratic, progressive and revolutionary" forces with deep historical roots. The interpretations are wooden, ideological, predictable. The conclusions are optimistic, given the book's assumptions: there is likely to be "a fundamental reconstruction of the socio-economic and political foundations of American society." The book has a bibliographic chapter on "Soviet Studies of the Recent History of the USA."

S. SH.A.: POLITIKA, VOINA, IDEOLOGIA. By G. A. Trofimenko. Moscow: Mysl, 1976, 359 pp. Rubles 1.40.

One of the Soviet Union's leading Americanologists describes American strategic thought and doctrine from George Washington to Henry Kissinger. He makes his way through masses of published material, picking what fits his themes, and shows a keen grasp of the subject. J.C.C.

THUNDER OF THE CAPTAINS: THE SHORT SUMMER OF 1950. By David Detzer. New York: Crowell, 1977, 243 pp. $10.00.

An entertaining blend of popular cultural history in the style of Frederick Lewis Allen and animated account of high policymaking during the first two weeks of the Korean War. Nothing new for the historically informed, but recommended for the general reader and especially for those born after 1950. The author overemphasizes the Korean War as a turning point: "For a moment during the summer of 1950 the United States stood frozen between past and future. Then she tipped."

HARRY TRUMAN'S CHINA POLICY: McCARTHYISM AND THE DIPLOMACY OF HYSTERIA, 1947-1951. By Lewis McCarroll Purifoy. New York: New Viewpoints, 1977, 316 pp. $15.00 (Paper, $6.95).

The author argues, on the basis of familar published sources, that the Truman Administration acted against its better judgment in pursuing an antagonistic policy toward Communist China. The reason: McCarthyite pressure. A good contrary case could be made that American policy would have been fundamentally the same, Joe McCarthy or no.

THE CONDUCT OF AMERICAN FOREIGN RELATIONS: THE OTHER SIDE OF DIPLOMACY. By Thomas H. Etzold. New York: New Viewpoints, 1977, 159 pp. $10.00 (Paper, $5.95).

An iconoclastic description and critique, well supported with historical illustrations, of how the American Foreign Service has functioned in the day-to-day conduct of foreign relations. Etzold argues that professional diplomats should implement policy, not make it. He has little tolerance for the oft-repeated complaints about the declining influence of the State Department.

THE POWER PEDDLERS: HOW LOBBYISTS MOLD AMERICA'S FOREIGN POLICY. By Russel Warren Howe and Sarah Hays Trott. New York: Doubleday, 1977, 546 pp. $12.50.

Two Washington journalists have accumulated a mass of data on lobbying activity on behalf of foreign nations: Nationalist China, Israel, Rhodesia, and many others. They argue convincingly that existing legislative efforts to regulate foreign lobbying are ineffective.

SEVEN CONTINENTS AND FORTY YEARS: A CONCENTRATION OF MEMOIRS. By C. L. Sulzberger. New York: Quadrangle, 1977, 688 pp. $17.50.

The author's four previously published volumes of excerpts from his journals are an unparalleled source for the international political history of this century.

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No journalist spoke to as many European, Asian and American leaders or in such depth. The present volume is a useful condensation.

PERSPECTIVES IN AMERICAN DIPLOMACY: ESSAYS ON EUROPE, LATIN AMERICA, CHINA, AND THE COLD WAR. Edited by Jules Davids. New York: Arno Press, 1976, 334 pp.

The rapid growth during the past decade of the Society for Historians of American Foreign Relations (SHARF) attests to the increasing specialization of the study and teaching of history. This volume contains papers from SHARF's 1975 conference. The best papers are Raymond A. Esthus' "Roosevelt, Russia, and Peacemaking 1905" and a group on the American response to Nazi influence in Latin America. Three biographical studies of Harriman, Kennan and Bohlen are thin.

A VISIT TO HALDEMAN AND OTHER STATES OF MIND. By Charles L. Mee, Jr. New York: M. Evans, 1977, 226 pp. $8.95.

The author of *Meeting at Potsdam* writes sharply and engagingly of the Kennedy-Johnson years and the "collapse of politics" after Vietnam and Watergate. For the author, lamed by polio at 14 but clever, gifted and high-spirited, political activism in the 1960s was theater, religion, psychotherapy, the thrill of life. Sounding sometimes like Henry Adams, then like a Yankee Saul Bellow (in the antic dialogues with real or phantom interlocutors), Mee shows how the burden of expectations put on political action finally proved too heavy for the nation, as for himself. *L.D.*

The Western Hemisphere

Robert D. Crassweller

BRAZIL: FOREIGN RELATIONS OF A FUTURE WORLD POWER. By Ronald M. Schneider. Boulder (Colo.): Westview Press, 1977, 236 pp. $16.50.

This is a thorough and scholarly work. It begins with a full account of current circumstances in Brazil, and continues with an analysis of the foreign policymaking process, the part played by governmental and military institutions, and the factors both facilitating and constraining Brazil's ability to assume a more prominent role as an international power.

ELECTORAL MOBILIZATION AND PUBLIC OPINION: THE VENEZUELAN CAMPAIGN OF 1973. By John D. Martz and Enrique A. Baloyra. Chapel Hill: University of North Carolina Press, 1977, 339 pp. $17.95.

The 1973 electoral victory of Acción Democrática is examined in unusual detail and depth, with the use of interviewing techniques and a variety of modern analytical tools and concepts.

THE CUBAN NATIONALIZATIONS: THE DEMISE OF FOREIGN PRIVATE PROPERTY. By Michael W. Gordon. Buffalo: Hein, 1976, 239 pp.

Castro's program of total nationalization of business enterprises is evaluated within the context of U.S.-Cuban relations, the Cuban economy, international law, and U.S. court decisions.

CHILE: THE STATE AND REVOLUTION. By Ian Roxborough, Philip O'Brien and Jackie Roddick. New York: Holmes & Meier, 1977, 304 pp. $20.00.

Criticizing the Allende administration from the Left, the authors attribute its failure to the basic error of trying to use the existing state apparatus to create a workers' state. Armed insurrection was necessary. It follows that the U.S. role, while important, was subsidiary, since the middle-class opposition to Unidad Popular was inevitable anyway.

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INEQUALITY IN THE PERUVIAN ANDES: CLASS AND ETHNICITY IN CUZCO. By Pierre L. van den Berghe and George P. Primov. Columbia: University of Missouri Press, 1977, 324 pp. $17.50.

Despite the intimidating sociological jargon, there is much of interest here. Examining the Cuzco region, the authors find considerable social stratification and inequalities, but also surprisingly high mobility, both among groups and individuals. "The elites have circulated;" however, "the base of the pyramid [the Indians] has remained relatively stable."

GOVERNMENT POLICY AND THE DISTRIBUTION OF INCOME IN PERU, 1963–1973. By Richard Charles Webb. Cambridge: Harvard University Press, 1977, 239 pp. $15.00.

Income distribution in Peru reflects " . . . both growing inequality and a gradual spreading of benefits," with more trickle-down than is generally believed. An interesting recommendation: substantial transfers of modern-sector income into traditional investment and productivity.

MY MISSIONS FOR REVOLUTIONARY BOLIVIA, 1944–1962. By Victor Andrade. Pittsburgh: University of Pittsburgh Press, 1976, 200 pp. $11.95.

The former Bolivian Foreign Minister and Ambassador to the United Nations presents his well-written, chatty reminiscences of MNR activities, Paz Estenssoro, the politics of tin, and the assorted turbulences of his two decades of service.

Western Europe

Christoph Kimmich

LE MAL FRANÇAIS. By Alain Peyrefitte. Paris: Plon, 1976, 524 pp. Fr. 49.

A book that provoked spirited opposition in France when it appeared some months ago. The author, who has distinguished himself as a politician and a diplomat, argues that France has become weak and pale, has lost her drive and initiative, has ceased to function effectively—and through no fault but her own. He attributes her decline to the centralization and bureaucratization of state and society; an argument which is not original, but which has rarely been advanced so passionately and incisively.

LA MÉMOIRE OUVERTE. By Paul Noirot. Paris: Stock, 1976, 370 pp. Fr. 38.

A member of the French Communist Party from 1943 until he was expelled in 1969, and for much of that time a member of its Central Committee, Noirot recounts the history of the Party, its politics, its quarrels, its compromises. He has an axe to grind, and the book is as much about his own revolutionary commitment as it is about the Party's.

THE GOVERNANCE OF BRITAIN. By Harold Wilson. New York: Harper, 1977, 219 pp. $10.95.

An insider's story: the workings of Britain's parliamentary democracy as seen from No. 10. Sir Harold describes the powers and functions of the Prime Minister as well as his relations with the Cabinet and the Commons. He writes with an urbane authority, and does not skimp on the personal reminiscence or the (always discreet) anecdote.

REVOLUTIONARIES IN MODERN BRITAIN. By Peter Shipley. Levittown (N.Y.): Transatlantic Arts, 1976, 256 pp. $12.75.

A sober survey of Britain's left-wing revolutionary movement by a young British historian. Shipley maintains that the "revolutionaries" in Britain are more numerous now than at any time in this century, but he does not regard them as a serious political threat as long as Britain stays on an even keel.

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THE PRECARIOUS TRUCE: ANGLO-SOVIET RELATIONS, 1924–27. By Gabriel Gorodetsky. New York: Cambridge University Press, 1977, 289 pp. $18.95.

The author, an Israeli scholar, is the first to tackle this complex phase of Anglo-Soviet relations. He traces the deterioration of these relations following Britain's *de jure* recognition of the Soviet Union in 1924, and shows how the British remained suspicious of, even indifferent to, Soviet efforts to prevent an open breach. A careful and thorough, if uninspired, study, drawing on government and trade union archives as well as on private papers.

HITLER'S WAR. By David Irving. New York: Viking, 1977, 926 pp. $17.50.

This is World War II "through Hitler's eyes, from behind his desk." From that vantage point, it appears that, although he may have been indecisive in military crises, Hitler was a gifted military leader often thwarted by a bungling general staff. More surprising, until 1943 or 1944 the author claims he remained unaware of the "final solution", which, if the book is to be believed, was the work of radical underlings who had escaped his control. The book is well written and contains much new material and much detail. Its judgments, however, will certainly generate considerable controversy and skepticism.

IN ACHT UND BANN. By Hans Georg Lehmann. Munich: Beck, 1976, 387 pp. DM. 29.80.

Lehmann has hit upon the intriguing notion of combining a general study of political emigration and denaturalization under the Nazi regime with a case study of Willy Brandt's exile and return. The most fascinating (and perhaps most depressing) part of the book, which the author discussed with Brandt himself, is the account of the suspicion and resentment that greeted the emigres when they returned. Richly documented, this is an illuminating piece of work.

THE HISTORY OF THE GERMAN RESISTANCE 1933–1945. By Peter Hoffmann. Cambridge: MIT Press, 1977, 847 pp. $19.95.

Originally published in German in 1969, this book will become the standard reference on this subject. Hoffmann has consulted all the available literature and dozens of survivors, and what emerges is a detailed and reliable account of the various cabals and conspiracies, the assassination attempts, and, at length, the July Plot of 1944. The focus is on the military and on conservative civil servants and diplomats; there is little on resistance from socialists, communists, the Church. No remarkable revelations, but misapprehensions are corrected and legends laid to rest.

THE GIANT KILLERS: THE DANISH RESISTANCE, 1940–1945. By John Oram Thomas. New York: Taplinger, 1976, 320 pp. $10.95.

More a tribute than a history, this is an often dramatic rendering of incidents and episodes that illustrate aspects of the resistance movement in Denmark—the sabotage of German installations, the underground press, the rescue of the Danish Jews. The author, an adventurous Welshman, was himself a resistance member.

NEMESIS AT POTSDAM: THE ANGLO-AMERICANS AND THE EXPULSION OF THE GERMANS. By Alfred M. de Zayas. Boston: Routledge & Kegan Paul, 1977, 268 pp. $11.95.

An account of British and American acquiescence in the brutal expulsion of millions of Germans from their homes in East-Central Europe at the end of World War II. The author is a lawyer, not an historian, and he makes much of the legal (and moral) implications of the issue while understating its historical complexities.

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DIE REVOLUTIONÄRE ILLUSION. Edited by Wolfgang Benz and Hermann Graml. Stuttgart: Deutsche Verlags-Anstalt, 1976, 303 pp.

Recollections of the revolutionary turmoil in Germany during and after World War I, composed in disillusioned old age by a leading activist and a participant. Of interest mainly as a record of the intentions, schemes and factional disputes of the short-lived Independent Socialist Party.

REVOLUTIONÄR, INTRIGANT, DIPLOMAT—KARL RADEK IN DEUTSCHLAND. By Dietrich Möller. Cologne: Wissenschaft und Politik, 1976, 304 pp. DM. 29.50.

Karl Radek is still something of an enigma. A prolific journalist with a taste for revolutionary intrigue, he was Lenin's man in Weimar Germany, and later Comintern agent for Stalin. This collection of letters, articles and speeches, covering the years 1909–1934, sheds some light on his talents and activities.

MODERN GERMAN NATIONALISM. By A. Ashkenasi. Cambridge: Schenkman, 1976, 225 pp. (New York: Halsted Press, distributor, $12.50).

Ashkenasi distinguishes between an old nationalism, a legacy of Germany's past, and a new nationalism, whose roots are in postwar society and whose goal is a powerful Europe dominated by Germany. The old nationalism is dead, he claims, but the new version is not far below the surface and constitutes a threat to German democracy and European stability. The documentation is impressive, but the argument (and the proofreading) could well have been more rigorous.

WESTERN EUROPE: THE TRIALS OF PARTNERSHIP. Critical Choices for Americans: Vol. VIII. Edited by David S. Landes. Lexington (Mass.): Lexington Books, 1977, 406 pp. $19.95.

One of the regional studies sponsored by the Rockefeller Commission on Critical Choices, this collection of essays raises many familiar, and some new, questions about the "troubled partnership." The contributions are of high quality—informed, judicious, often profound. Most of them have as much to say about the European states themselves as about our relations with them. The volume makes some suggestions for improving the working of the alliance, but it offers no bold departures. For, as Landes concedes, "the choices presented to us are few, and none is really critical."

LE MONDE ROMPU. By Pierre Mayer. Paris: Fayard, 1976, 309 pp.

Reflections of uneven merit concerning the political implications of Europe's economic shocks of the 1970s and of America's post-Vietnam power.

LA SUISSE ET LA DIPLOMATIE MULTILATÉRALE. Edited by Jacques Freymond. Geneva: Institut Universitaire de Hautes Etudes Internationales, 1976, 304 pp. S. Fr. 45.

SWITZERLAND: NEUTRALITY AS A FOREIGN POLICY. By Hugh R. Wilson. Philadelphia: Dorrance, 1976, 78 pp. $4.95.

The first is a useful introduction, written by Swiss civil servants under the aegis of Freymond's Institut in Geneva, to the role and function of neutral Switzerland in the world today. Hugh Wilson, who grew up in Berne as the son of the Secretary of the American Legation, provides historical background and some current perspectives.

THE CRISIS OF THE DICTATORSHIPS: PORTUGAL, SPAIN, GREECE. By Nicos Poulantzas. Atlantic Highlands (N.J.): Humanities Press, 1976, 166 pp. $10.50.

FOREIGN INTERFERENCE IN GREEK POLITICS. By Theodore A. Cou-

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loumbis, John A. Petropulos, and Harry J. Psomiades. New York: Pella, 1976, 171 pp. $6.00 (Paper, $4.00).
THE GREEK UPHEAVAL. By Taki Theodoracopulos. London: Stacey International, 1977, 262 pp. £4.90.

Occasioned by developments in Greece over the past decade, these books offer background and explanations, none quite satisfactory. The first, a neo-Marxist analysis, considers Greece (like the other authoritarian regimes in southern Europe) a victim of imperialist dependence. The second sees foreign interference as a persistent feature of Greek political life since the early 19th century. The third book, by a Greek journalist educated in this country, absolves the United States and blames the Greek "problem" on native politics and corrupt politicians.

The Soviet Union and Eastern Europe

John C. Campbell

THE SOVIET EMPIRE: EXPANSION AND DETENTE. Critical Choices for Americans: Vol. IX. Edited by William E. Griffith. Lexington (Mass.): Lexington Books, 1977, 417 pp. $19.95.

To this volume in the series sponsored by former Governor Rockefeller's Commission on Critical Choices a number of well-qualified specialists contribute standard essays on Soviet policy at home and abroad, and point to a few important choices. At the end Griffith gives his encapsulated policy recommendations. No surprises.

SOVIET IMAGES OF AMERICA. By Stephen P. Gibert. New York: Crane, Russak, 1977, 167 pp. $12.50 (Paper, $5.95).
THE TROUBLED DÉTENTE. By Albert L. Weeks. New York: New York University Press, 1977, 190 pp. $10.00.

Both books are about détente as a Soviet tactic in the service of a long-range strategy of competition and eventual domination. Gibert provides copious citations from Soviet writings on this theme with little attempt to distinguish between the real "images" of America held by the top leadership and the current propaganda line. The argument is that they believe what they say and so should we. Weeks covers the doctrine and practice of peaceful coexistence from Lenin to Brezhnev in glimpses, episodes and quotations. He sees some recent signs of moderation on the Soviet side that may be more than tactics.

YADERNOE RAZORUZHENIE. By A. E. Efremov. Moscow: "Mezhdunarodnye otnoshenia", 1976, 302 pp.
SOVETSKII SOYUZ I PROBLEMA RAZORUZHENIA. By I. G. Usachev. Moscow: "Mezhdunarodnye otnoshenia", 1976, 190 pp.

Efremov's work is a history of Soviet positions (and American and Chinese as well) on nuclear and other disarmament questions over the entire postwar period, both in the U.N. and in bilateral U.S.-Soviet negotiations, though with minimal attention to SALT. Usachev covers the same ground more sketchily.

THE SCIENTIFIC INTELLIGENTSIA IN THE USSR. Edited by D. M. Gvishiani and others. Moscow: Progress, 1976, 247 pp.

This little book throws light on how the Soviet establishment sees the implications of the "scientific and technological revolution" for Soviet society and planning, and how the government and Academy of Sciences are going about training the needed scientific personnel.

NATIONALISM IN THE USSR & EASTERN EUROPE IN THE ERA OF BREZHNEV & KOSYGIN. Edited by George W. Simmonds. Detroit: University of Detroit Press, 1977, 534 pp. $12.00 (Paper, $6.95).

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This book of brief contributions by over 40 authors has little unity other than its announced theme of the reemergence of nationalism as a major force in the communist world, but one can find some good pieces here and there and a wealth of reference material on many nationalities.

POLITICAL DEVELOPMENT IN EASTERN EUROPE. Edited by Jan F. Triska and Paul M. Cocks. New York: Praeger, 1977, 374 pp. $7.95 (Paper).
CHANGE AND ADAPTATION IN SOVIET AND EAST EUROPEAN POLITICS. Edited by Jane P. Shapiro and Peter J. Potichnyj. New York: Praeger, 1976, 236 pp. $18.50.

These books are about political "development" in the singular. Thus there is much about modernization, social mobilization, participation, structural change and the like, and not much about recent politics. The comparative politics approach to communist societies developed by Triska and others over the past decade has expanded our knowledge considerably, although no grand theoretical structure has yet emerged. The Triska-Cocks volume sets a standard of analysis and organization which the Shapiro-Potichnyj book does not reach.

ON THE EDGE OF DESTRUCTION: JEWS OF POLAND BETWEEN THE TWO WORLD WARS. By Celia Heller. New York: Columbia University Press, 1977, 369 pp. $14.95.

A political and sociological study, reflecting both careful scholarship and personal commitment, of the status and life of Polish Jewry before the holocaust: religious traditions; social conditions; the question of assimilation; political movements (communism, socialism, and Zionism); the depth of Polish anti-Semitism, and the Jewish reaction to it.

SOCIALIST OPPOSITION IN EASTERN EUROPE: THE CZECHOSLOVAK EXAMPLE. By Jiri Pelikan. New York: St. Martin's, 1976, 221 pp. $12.95.

One of the luminaries of the "Prague Spring" now resident in the West considers the possibilities for pluralist and democratic socialism (or Eurocommunism) in Eastern and Western Europe. The critical factor, as he recognizes, is what happens internally in the Soviet Union.

HUNGARY BETWEEN WILSON AND LENIN. By Peter Pastor. New York: Columbia University Press, 1976, 191 pp. $13.00.

An exemplary monograph on the relations of the new postwar Hungarian Republic led by Michael Karolyi with the major Western powers, and the final result, the advent of the Communist regime of Bela Kun.

POLITICS IN HUNGARY. By Peter A. Toma and Ivan Volgyes. San Francisco: Freeman, 1977, 188 pp. $12.00.

Bizarre in format, comprehensive in content, coolly critical in approach, this book draws on a wealth of Hungarian material to describe the political system of contemporary Hungary. Popular acceptance—*faute de mieux*—gives the regime a certain legitimacy, but there is no more cynical a political culture anywhere.

THE STRUCTURE OF SOCIALIST SOCIETY. By András Hegedüs. New York: St. Martin's, 1977, 230 pp. $9.95.

This rather candid critique of Hungarian society, translated from two studies published in 1966 and 1970, gains interest because its author, a former hard-line prime minister turned soft-line sociologist, was later purged for his heresies.

ESEU DESPRE STRATEGIA APĂRĂRII. By Traian Grozea. Bucharest: Editura Militară, 1976, 368 pp.

A scholarly Romanian officer's thoughts on military strategy in general (the translation of the title is *An Essay on the Strategy of Defense*) and Romanian strategy in particular. Interesting for the way in which it relates military concepts to the existing foreign policy and discusses the Warsaw Pact connection in this context.

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THE YUGOSLAV EXPERIMENT 1948–1974. By Dennison Rusinow. Berkeley: University of California Press, 1977, 431 pp. $16.50.

Probably no other American has such knowledge and understanding of contemporary Yugoslavia as Dennison Rusinow. Here he calls on his long experience as American Universities Field Staff associate in that country to describe the course that, since the break with Stalin, has been marked by "the astounding flexibility and adaptability of the Yugoslavs, both leaders and led." Especially good on the successive internal crises associated with the names of Djilas, Ranković, Tripalo and Nikezić.

The Middle East and North Africa

John C. Campbell

RED STAR ON THE NILE: THE SOVIET-EGYPTIAN RELATIONSHIP SINCE THE JUNE WAR. By Alvin Z. Rubinstein. Princeton: Princeton University Press, 1977, 383 pp. $25.00 (Paper, $9.75).

The most balanced and comprehensive study we have yet had on this subject. In addition to the year-to-year ups and downs, the author provides some interesting reflections on the nature of influence and the reasons why the weaker party rather than the superpower got the better of the bargain.

AFTER THE GUNS FALL SILENT. By Mohamed Sid-Ahmed. New York: St. Martin's, 1977, 144 pp. $15.95.

A distinguished Egyptian journalist points to the role of the October War in removing obstacles and inhibitions to a negotiated peace, and warns that failure to grasp the opportunity can only make the Palestine question more explosive and bring a new round of hostilities that could be nuclear. The book has stirred considerable controversy in the Arab world since its original publication in Arabic in 1975.

YOM KIPPUR AND AFTER: THE SOVIET UNION AND THE MIDDLE EAST CRISIS. By Galia Golan. New York: Cambridge University Press, 1977, 350 pp. $18.95.

Against the background of the overall U.S.S.R. connection with the Middle East and using all available evidence, an Israeli analyst skillfully reconstructs the Soviet role in the October War. Stressing the priority of the superpower relationship, her conclusions rebut the more hawkish interpretations of Soviet policy both in the genesis of the war and in the crisis at its close.

THE PALESTINE STATE: A RATIONAL APPROACH. By Richard J. Ward, Don Peretz and Evan M. Wilson. Port Washington (N.Y.): Kennikat Press, 1977, 206 pp. $9.95.

BENEFITS AND BURDENS: A REPORT ON THE WEST BANK AND GAZA STRIP ECONOMIES SINCE 1967. By Brian Van Arkadie. New York and Washington: Carnegie Endowment, 1977, 164 pp. $3.75 (Paper).

In an expanded version of a study published in 1970, Ward and his colleagues, all with long experience in Middle East affairs, discuss – and advocate – the establishment of a Palestinian state or "entity" comprising the West Bank and the Gaza Strip. They also describe possible compromise solutions for Jerusalem. Van Arkadie's book describes the creation of new economic patterns in those territories under Israeli occupation, and throws light on the much-discussed question of their "viability" under alternative political settlements.

JERUSALEM: THE TORN CITY. By Meron Benvenisti. Minneapolis: University of Minnesota Press, 1977, 407 pp. $15.00.

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JERUSALEM: FIN DE LA VILLE UNIVERSELLE? By A. M. Goichon. Paris: Maisonneuve et Larose, 1976, 378 pp.

Two books rich in detail on what has happened in Jerusalem since 1967 but written from quite different points of view. Goichon, pointing to the illegality of Israeli action, condemns and deplores the transformation of Jerusalem from a universal to a purely Jewish city. Benvenisti, who as Deputy Mayor has been personally involved, is a keen and sympathetic analyst of the relations between the two communities, which he believes can be no more than uneasy coexistence as long as there is no political settlement.

ISRAELIS SPEAK. Edited by Larry L. Fabian and Ze'ev Schiff. New York and Washington: Carnegie Endowment, 1977, 258 pp. $5.00 (Paper).

The uninhibited discussion among 13 articulate Israelis of differing political views who met at a conference in Bellagio, Italy, in 1976. The topics discussed include Zionism, the Palestinian Arabs, borders, and Israel's future.

THE TURKISH EXPERIMENT IN DEMOCRACY, 1950–1975. By Feroz Ahmad. London: Hurst (for the Royal Institute of International Affairs), 1977, 474 pp. £12.

One gets from this book, the most comprehensive yet to appear on Turkey's postwar politics, a keen appraisal of how political democracy has worked, or not worked, and of the supra-constitutional role played on occasion by the military. Scholarly but not dull, it contains interesting personal judgments (Demirel, for example, emerges as only a wily politician but Ecevit as a statesman).

AMERICAN DIPLOMATIC RELATIONS WITH THE MIDDLE EAST, 1784–1975: A SURVEY. By Thomas A. Bryson. Metuchen (N.J.): Scarecrow Press, 1977, 439 pp. $17.50.

From Stephen Decatur and the Barbary pirates to Henry Kissinger and Sinai Accord II, this survey of American policy and diplomacy offers a plenitude of facts and a useful bibliography but cannot be given high marks for organization, precision of expression, or the quality of the prose.

THE MIDDLE EAST: CRITICAL CHOICES FOR THE UNITED STATES. Edited by Eugene V. Rostow. Boulder (Colo.): Westview Press (for the National Committee on American Foreign Policy), 1977, 211 pp. $15.00.

These essays stressing the need for American strength, resolution, and support of Israel to stop the Soviet-Arab drive for domination of the region are significant as illustrating the point of view of a vocal and influential segment of the unofficial foreign affairs community.

THE ARAB WORLD: A COMPREHENSIVE HISTORY. By Peter Mansfield. New York: Crowell, 1977, 572 pp. $16.95.

A veteran journalist's excellent survey, skimming the early centuries, tarrying a while in the nineteenth, and concentrating on more recent times, including a brief contemporary sketch of each country. The general theme is the familiar one of action and reaction between Western influence and Arab nationalism.

NATSIONAL'NO-OSVOBODITEL'NOE DVIZHENIE V IRAKE (1917–1958). By N. O. Oganesian. Erevan: Izdatel'stvo A.N. Armianskoi SSR, 1976, 392 pp.

Western scholars would do well to look at this study of the "national liberation movement" in Iraq, not just for the Soviet viewpoint but for the wealth of Soviet and Arabic material on which, in addition to Western writings, it is based. Most of the coverage is of the pre-World War II period.

LE FELLAH MAROCAIN DÉFENSEUR DU TRÔNE. By Remy Leveau. Paris: Presses de la Fondation Nationale des Sciences Politiques, 1976, 281 pp. Fr. 94.

Broader than its title, this study in sociology and politics tells a great deal

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about the nature of political elites in Morocco and especially the dilemmas of the monarchy, concerned both with power and with change, in dealing with them.

Asia and the Pacific

Donald S. Zagoria

CHINA POLICY: OLD PROBLEMS AND NEW CHALLENGES. By A. Doak Barnett. Washington: Brookings, 1977, 130 pp. $8.95 (Paper, $2.95).

According to this distinguished expert, protracted delay by the new Administration in normalizing relations with China is likely to create new risks of a deterioration of the present limited détente between Washington and Peking. On the crucial issue, how to normalize relations without "abandoning" Taiwan, Barnett advocates ending the defense treaty with the Nationalists and replacing it with "a strong, unilateral public statement". That statement should make clear that peace and security in the Taiwan area are important to the U.S., that we will oppose any attempts to change Taiwan's status by force, and that in the event of conflict American naval and air support may be offered to Taiwan. The U.S. should also remove all U.S. military forces but continue to allow the sale of military equipment to Taiwan.

THE OUTSIDERS: THE WESTERN EXPERIENCE IN INDIA AND CHINA. By Rhoads Murphey. Ann Arbor: University of Michigan Press, 1977, 299 pp. $16.50.

One of the few China specialists who venture forth from the parochial realm of Sinology, Murphey shows the utility, indeed the necessity, of comparison. By examining the divergent Chinese and Indian responses to Western incursions, he helps to identify the particular nature of both cultures. For example: while the colonial port cities in South and Southeast Asia were the vanguard of socio-economic transformation, in China the treaty ports not only were *not* the agents of change but they became the targets of an anti-urban revolution led by the Communists. In explaining why China was able to resist Western-oriented, urban-centered modernization, Murphey goes a long way toward demonstrating China's distinctiveness—a long acquired experience in creating and managing a complex, sophisticated production system.

COMRADE CHIANG CH'ING. By Roxane Witke. Boston: Little, Brown, 1977, 549 pp. $15.00.

The problem with this book is the author's strategy of mixing her own, often simplistic, account of Chinese Communist history with a selective and self-serving account by Mao's wife. The value of the book lies not in its pretensions to history but in Chiang Ch'ing's revelations. They disclose a power-hungry and completely unscrupulous "empress" engaging in sordid, Byzantine intrigues under the guise of purifying the "masses." As history, the book must be treated with great caution. As political journalism, it sheds—albeit unwittingly—fascinating light on the deterioration of a revolution and the devouring of its children.

CHINA'S FORTY MILLIONS. By June Teufel Dreyer. Cambridge: Harvard University Press, 1977, 333 pp. $14.00.

The most comprehensive study yet of Chinese Communist policy toward the strategically located national minorities. The author concludes that the Party's most conspicuous failures have been in Sinkiang and Tibet, where major rebellions occurred in 1962 and 1959 respectively, and where the participation of minority groups in party and government organs has consistently lagged behind that of minority groups elsewhere. The goal of Communist policy seems to be abolition of minority culture and forced assimilation, although the pace of assimilation has varied from period to period.

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CHINA'S ECONOMY AND THE MAOIST STRATEGY. By John G. Gurley. New York: Monthly Review Press, 1976, 325 pp. $15.00.

This collection of essays is quite uneven and accepts too much of Maoism at face value. Still, the chapter which reviews the Western literature on China's economy is worth the price of the book.

THE PRESIDENCY OF YUAN SHIH-K'AI: LIBERALISM AND DICTATORSHIP IN EARLY REPUBLICAN CHINA. By Ernest P. Young. Ann Arbor: University of Michigan Press, 1977, 347 pp. $17.50.

A largely descriptive, but extremely thorough, study of early republican China.

AUSTRALIA'S NORTHERN NEIGHBOURS: INDEPENDENT OR DEPENDENT? Edited by Edward P. Wolfers. Canberra: Nelson (with the Australian Institute for International Affairs), 1976, 276 pp.

The result of a conference, this volume contains a thoughtful group of essays on Southeast Asia from an Australian vantage point. Opinions are divided on most of the crucial issues. Is the potential for rural revolution growing? Feith thinks that it is, in at least four of the ASEAN countries. Others disagree. Is Southeast Asia becoming overly dependent on foreign financial aid and investment? Opinions differ. But for those who think that the region is becoming calm and stable after Vietnam, this is a cautionary tale.

SOUTHEAST ASIA IN INTERNATIONAL POLITICS, 1941–1956. By Evelyn Colbert. Ithaca: Cornell University Press, 1977, 372 pp. $17.50.

A solid account of the international relations of Southeast Asia in the critical period from World War II up to the years immediately following the first Geneva settlement.

JAPAN AT THE POLLS: THE HOUSE OF COUNCILLORS ELECTION OF 1974. Edited by Michael K. Blaker. Washington: American Enterprise Institute, 1976, 157 pp. $3.00 (Paper).

Much superior to the usual election study, this collection of three essays is a superb introduction to the Japanese political process. It analyzes the origins of Japan's democratic system during the Occupation, the role of various interest groups, and the strategy of the political parties. It is particularly good on analyzing the decade-long process of conservative decline.

PARTIES OUT OF POWER IN JAPAN 1931–1941. By Gordon Mark Berger. Princeton: Princeton University Press, 1977, 413 pp. $20.00.

The fullest account yet of prewar Japanese politics, focusing on the decline of the political parties in the 1930s.

THE JAPANESE ARE COMING. By Yoshi Tsurumi. Cambridge: Ballinger, 1976, 333 pp. $16.50.

As of 1973, two thirds of Japanese manufacturing operations abroad were in Asia. Lately, Japanese multinationals have been moving into Latin America, North America and Europe. This volume analyzes the causes and consequences of Japanese overseas investment, and concludes that the image of "the ugly Japanese" has unfortunately been firmly cemented abroad.

TUN RAZAK: HIS LIFE AND TIMES. By William Shaw. New York: Longman, 1977, 267 pp. $14.50.

A timely, but not very analytical, biography of the former Malaysian Prime Minister, one of the most influential political figures in Southeast Asia, who died suddenly in 1976.

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Africa

Jennifer Seymour Whitaker

WHITE WEALTH AND BLACK POVERTY. By Barbara Rogers. Westport (Conn.): Greenwood Press, 1976, 331 pp. $14.95.

Rogers' forceful case for U.S. economic disengagement from South Africa is buttressed by a detailed description of the parallel development of apartheid and industrialization in South Africa. Covering South Africa's modern sector, the economic structure of the homelands, income distribution, and foreign (particularly U.S.) investors, this study provides a valuable resource, superseding in breadth and depth most current analyses of the subject.

THE POLITICS OF SOUTH AFRICA. By Howard Brotz. New York: Oxford University Press, 1977, 164 pp. $11.95.

Drawing its main recommendations from the 1948 report of the South African United Party's Fagan Commission, this work by an American sociologist seems several decades out of tune with the times. More interesting than Brotz' rather vague prescriptions for "consultation" with urban blacks is his case—unproven but provocative—for a significant shift in the internal dynamics of Nationalist politics: i.e., an end to the consistent movement of power to the Right.

POWER AND CLASS IN AFRICA. By Irving Leonard Markovitz. New York: Prentice-Hall, 1977, 398 pp. $12.95 (Paper, $8.95).

This ambitious analysis succeeds admirably in organizing its large canvas without distorting the multitudinous details which form the African political landscape. Not dependency, but inequity and the often declining fortunes of the rural population, are seen to be the central problems. Despite his thesis, however, Markovitz exhibits what seems to be an ambivalent enthusiasm for the energetic pursuit of individual advantage by African entrepreneurial types.

SOVIET SHADOW OVER AFRICA. By Walter F. Hahn and Alvin J. Cottrell. Washington: Center for Advanced International Studies, University of Miami, 1977, 105 pp. $3.00 (Paper).

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Shoehorning a quantity of half-assimilated information into their worst-case analysis, Hahn and Cottrell focus on sealanes, southern African minerals, and Soviet stratagems; in the long run, they hint, the West may have to intervene to protect "compelling strategic and economic stakes." Cast in the same genre, the two Council on American Affairs collections are notable chiefly as a platform for congressional members of a potential Southern Africa lobby, including Senators Dewey F. Bartlett, James McClure and Carl Curtis; Representatives John H. Dent and Larry P. McDonald.

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Janet Rigney

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ERRATA

April 1977

1. In George W. Ball's "How to Save Israel in Spite of Herself": on page 463, delete line 8; on the same page, for footnote 3, read footnote 4.

2. In Nancy Turck's "The Arab Boycott of Israel": on page 492, line 10, delete Iraq. Iraq has in fact rejected the proposal to accept positive certificates of origin.

3. In Jonathan I. Charney's "Law of the Sea: Breaking the Deadlock":
   a. On page 613, line 2, for "straits" read "coastal."
   b. On page 618, line 14, for "ratification" read "advice and consent."

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